EXHIBIT 10.26

AMENDMENT NO. 2 TO DISTRIBUTION AGREEMENT

October 6, 1995

WHEREAS, the parties hereto have previously entered into a Distribution Agreement, dated October 11, 1991, as amended by Amendment No. 1 thereto dated December 2, 1993 and as supplemented on June 16, 1993 and August 1, 1994 (the "Distribution Agreement"), among BanPonce Financial Corp. (the "Company"), BanPonce Corporation (the "Guarantor") and Merrill Lynch, Pierce, Fenner & Smith Incorporated, CS First Boston Corporation and First Chicago Capital Markets, Inc. (each, an "Agent and collectively, the "Agents") relating to the issue and sale by the Company of its Medium-Term Notes; and

WHEREAS, the Company, the Guarantor and each of the Agents wish to amend the Distribution Agreement (i) to amend the definition of a "Significant Subsidiary" contained in Section 2(a)(ii) thereof to include subsidiaries that may be incorporated as banks, (ii) to except from the requirements of Sections 7(b), 7(c) and 7(d) thereof sales by the Guarantor or its subsidiaries of preferred stock and (iii) to amend the requirements of Section 7(c) thereof to provide for the delivery of the legal opinions required thereby by Puerto Rico counsel to the Company and the Guarantor;

NOW, THEREFORE, the Company, the Guarantor and each of the Agents hereby agree to amend said Distribution Agreement as follows:

1. Section 2(a)(ii) of the Distribution Agreement is hereby amended to read as follows:

(ii) Subsidiaries. Each subsidiary of the Guarantor or the Company which is a significant subsidiary as defined in Rule 405 of Regulation C of the 1933 Act Regulations (each, a "Significant Subsidiary") has been duly incorporated and is validly existing as a corporation or a bank in good standing under the laws of the jurisdiction of its incorporation, has corporate power and authority to own, lease and operate its properties and conduct its business as described in the Prospectus and is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure to so qualify and be in good standing would not have a material adverse effect on the condition, financial or otherwise, or the earnings, business affairs or business

prospects of the Guarantor and its subsidiaries considered as one enterprise; and all of the issued and outstanding capital stock of each such Significant Subsidiary has been duly authorized and validly issued, is fully paid and non-assessable (subject to the provisions of
Section 55 of Title 12 of the United States Code in the case of Significant Subsidiaries which are national banking associations) and, except as otherwise disclosed in the Prospectus and except for directors' qualifying shares, is owned by the Company or the Guarantor, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity or, if such is not the case, that any such security interest, mortgage pledge, lien, encumbrance, claim or equity, when exercised, enforced or otherwise asserted, will not have a material adverse effect on the condition, financial or otherwise, or the earnings, business affairs or business prospects of the Guarantor and its subsidiaries considered as one enterprise.

2. Sections 7(b), 7(c) and 7(d) of the Distribution Agreement are hereby amended to read as follows:

(b) Subsequent Delivery of Certificates. Each time that the Registration Statement or the Prospectus shall be amended or supplemented (other than by an amendment or supplement providing solely for a change in the interest rates of Notes or similar changes and other than by an amendment or supplement which relates exclusively to an offering of debt securities other than the Notes or an offering of preferred stock of the Guarantor or its subsidiaries) or there is filed with the SEC any document incorporated by reference into the Prospectus (other than (i) any Current Report on Form 8-K relating exclusively to the issuance of debt securities or preferred stock under the Registration Statement or (ii) a document filed pursuant to Section 14 of the 1934 Act unless requested by the Agents) or (if required pursuant to the terms of a Terms Agreement) the Company sells Notes to an Agent pursuant to a Terms Agreement, the Company shall furnish or cause to be furnished to the Agents (or, in the case of a sale of Notes to an Agent pursuant to a Terms Agreement, to such Agent) forthwith certificates dated the date of filing with the SEC of such supplement or document, the date of effectiveness of such amendment, or the date of such sale, as the case may be, in form satisfactory to the Agents or such Agent, as the case may be, to the effect that the statements contained in the certificates referred to in Section 5(b) hereof which were last furnished to the Agents are true and correct at the time of such amendment, supplement, filing or sale, as the case may be, as though made at and as of such time (except that such statements shall be deemed to relate to

the Registration Statement and the Prospectus as amended and supplemented to such time) or, in lieu of such certificates, certificates of the same tenor as the certificates referred to in said Section 5(b), modified as necessary to relate to the Registration Statement and the Prospectus as amended and supplemented to the time of delivery of such certificates.

(c) Subsequent Delivery of Legal Opinions. Each time that the Registration Statement or the Prospectus shall be amended or supplemented (other than by an amendment or supplement providing solely for a change in the interest rates of the Notes or similar changes or solely for the inclusion of additional financial information, and, unless the Agents shall otherwise specify, other than by an amendment or supplement which relates exclusively to an offering of debt securities other than the Notes or an offering of preferred stock of the Guarantor or its subsidiaries) or there is filed with the SEC any document incorporated by reference into the Prospectus (other than (i) any Current Report on Form 8-K or (ii) a document filed pursuant to Section 14 of the 1934 Act, in each case, unless the Agents shall otherwise reasonably request), or (if required pursuant to the terms of a Terms Agreement) the Company sells Notes to an Agent pursuant to a Terms Agreement, the Company shall furnish or cause to be furnished forthwith to the Agents (or, in the case of a sale of Notes to an Agent pursuant to a Terms Agreement, to such Agent), with a copy to counsel to the Agents, a written opinion or opinions of Puerto Rico Counsel to the Company and the Guarantor satisfactory to the Agents or such Agent, as the case may be, dated the date of filing with the SEC of such supplement or document, the date of effectiveness of such amendment, or the date of such sale, as the case may be, in form and substance satisfactory to the Agents or such Agent, as the case may be, of the same tenor as the opinion referred to in Section 5(a)(2) hereof, but modified, as necessary, to relate to the Registration Statement and the Prospectus as amended and supplemented to the time of delivery of such opinion; or, in lieu of such opinion or opinions, counsel last furnishing such opinion to the Agents or such Agent, as the case may be, shall furnish the Agents or such Agent, as the case may be, with a letter to the effect that the Agents or such Agent, as the case may be, may rely on such last opinion to the same extent as though it was dated the date of such letter authorizing reliance (except that statements in such last opinion shall be deemed to relate to the Registration Statement and the Prospectus as amended and supplemented to the time of delivery of such letter authorizing reliance).

(d) Subsequent Delivery of Comfort Letters. Each time that the Registration Statement or the Prospectus shall be

amended or supplemented to include additional financial information or there is filed with the SEC any document incorporated by reference into the Prospectus which contains additional financial information (other than a Current Report on Form 8-K filed solely for the purpose of incorporating a press release relating to the Guarantor's interim or annual financial statements or results of operations or filed in connection with the issuance of preferred stock by the Guarantor or its subsidiaries pursuant to the Registration Statement) or (if required pursuant to the terms of a Terms Agreement) the Company sells Notes to an Agent pursuant to a Terms Agreement, the Guarantor shall cause Price Waterhouse LLP forthwith to furnish the Agents (or, in the case of a sale of Notes to an Agent pursuant to a Terms Agreement, to such Agent) with a letter, dated the date of effectiveness of such amendment, supplement or document with the SEC, or the date of such sale, as the case may be, in form satisfactory to the Agents or such Agent, as the case may be, of the same tenor as the portions of the letter referred to in Section 5(c) hereof but modified to relate to the Registration Statement and Prospectus, as amended and supplemented to the date of such letter; provided, however, that if the Registration Statement or the Prospectus is amended or supplemented solely to include financial information as of and for a fiscal quarter, Price Waterhouse LLP may limit the scope of such letter to the unaudited financial statements included in such amendment or supplement unless any other information included therein of an accounting, financial or statistical nature is of such a nature that, in the reasonable judgment of the Agents or such Agent, as the case may be, such letter should cover such other information.

Except as otherwise expressly provided herein, the Distribution Agreement is in all respects ratified and confirmed, and all the terms, provisions and conditions thereof shall be and remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have cause this Amendment No. 2 to the Distribution Agreement to be executed on their behalf as of the day and year first above written.

BANPONCE FINANCIAL CORP.

By: /s/ David H. Chafey, Jr.

Name: David H. Chafey, Jr.
Title: President

BANPONCE CORPORATION

By: /s/ David H. Chafey, Jr.

Name: David H. Chafey, Jr.
Title: Executive Vice President

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED

By: /s/ Scott G. Primrose

Name: Scott G. Primrose
Title: Authorized Signatory

CS FIRST BOSTON CORPORATION

By: /s/ Martha D. Bailey

Name: Martha D. Bailey
Title: Vice President

FIRST CHICAGO CAPITAL MARKETS, INC.

By: /s/ Linda A. Dawson

Name: Linda A. Dawson
Title: Managing Director

EXHIBIT 12.1

POPULAR, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
(Dollars in thousands)

	Year Ended December		
	2000	1999	1998
Income before income taxes	375,748	340,224	306,691
Fixed charges :			
Interest expense	1,167,396	897,932	778,692
Estimated interest component of net rental payments	13,110	10,970	8,817
Total fixed charges including interest on deposits	1,180,506	908,902	787,509
Less: Interest on deposits	529,373	452,215	411,492
Total fixed charges excluding interest on deposits	651,133	456,687	376,017
Income before income taxes and fixed charges(including interest on deposits)	$1,556,254	$1,249,126	$1,094,200
Income before income taxes and fixed charges(excluding interest on deposits)	$1,026,881	$ 796,911	$ 682,708
Preferred stock dividends	8,350	8,350	8,350
Ratio of earnings to fixed charges			
Including Interest on Deposits	1.3	1.4	1.4
Excluding Interest on Deposits	1.6	1.7	1.8
Ratio of earnings to fixed charges & Preferred Stock Dividends			
Including Interest on Deposits	1.3	1.4	1.4
Excluding Interest on Deposits	1.6	1.7	1.8

EXHIBIT 13.1

[LOGO]

[PHOTO]

Serving Our Clients
Solidifying Our Markets
Securing Our Future

2000 Popular, Inc. Annual Report

SECURING OUR FUTURE

Popular, Inc., a bank holding company with $28 billion in assets, is a complete financial services provider with operations in Puerto Rico, the United States, the Caribbean and Latin America. As the leading financial institution in Puerto Rico, the Corporation offers full individual and commercial banking services through its principal subsidiary, Banco Popular, as well as investment banking, auto leasing, mortgage, personal loans, insurance, and information processing through specialized subsidiaries. In the United States, the Corporation has established the largest Hispanic financial services franchise, providing solutions to the fastest-growing population segment in the country. The Corporation continues to use its technological expertise and experience in commercial banking as a competitive advantage on its Caribbean and Latin America expansion, and is exporting its 107 years of retail banking experience to the region. Popular, Inc. has always been committed to meeting the needs of individual and business clients through innovation, and to fostering growth in the communities where it does business.

[GRAPH]

FINANCIAL HIGHLIGHTS

NET INCOME
dollars in millions

[CHART]

TOTAL ASSETS
dollars in millions

[CHART]

ROA
percentage

[CHART]

ROE
percentage

[CHART]

MARKET CAPITALIZATION
dollars in millions

[CHART]

EARNINGS PER SHARE
dollars

[CHART]

VALUES

Social Responsibility

We are committed to work for the social and economic well-being of the communities we serve with particular regard for the lowest socioeconomic component of the population.

Focus on the Customer

Our customers are the lifeblood of our organization. We are an institution that values relationships more than transactions. The needs and satisfaction of our customers are our primary concern.

Integrity

We are guided by the highest moral and ethical standards. The trust of our customers is essential for our existence.

Passion for Excellence

We firmly believe in doing things the right way, the first time, every time. Continuous improvement and measurement of all our processes is essential for our success.

Innovation

Constant innovation is a competitive advantage. We adopt new techniques in all business areas to anticipate the changing needs of our customers.

Our People

We believe that our working environment should be characterized by affection and discipline. We strive to attract, develop and retain the most qualified people. We recognize and reward the performance of excellence by the individual, the team and the Corporation.

Shareholder Value

Our goal is to produce above-average and consistent financial returns for our shareholders. Our decisions are based on a long-term view of the future and are characterized by prudence in assuming risk.

OUR CREED

Banco Popular is a local institution dedicating its efforts exclusively to the enhancement of the social and economic conditions in Puerto Rico and inspired by the most sound principles and fundamental practices of good banking. Banco Popular pledges its efforts and resources to the development of a banking service for Puerto Rico within strict commercial practices and so efficient that it could meet the requirement of the most progressive community of the world.

These words, written in 1928 by Don Rafael Carrion Pacheco, Executive Vice President and President (1927-1956), embody the philosophy of Popular, Inc.

OUR PEOPLE

The men and women who work for our institution, from the highest executive to the employees who handle the most routine tasks, feel a special pride in serving our customers with care and dedication. All of them feel the personal satisfaction of belonging to the "Banco Popular Family", which fosters affection and understanding among its members, and which at the same time firmly complies with the highest ethical and moral standards of behavior.

These words by Don Rafael Carrion Jr., President and Chairman of the Board (1956-1991) were written in

1988 to commemorate the 95th anniversary of Banco Popular de Puerto Rico, and reflect our commitment to human resources.

HISTORICAL FINANCIAL SUMMARY

(Dollars in millions, except per common share data)

	1980	1981	1982	1983	1984	19
SELECTED FINANCIAL INFORMATION						
Net Interest Income	$ 130.0	$ 135.9	$ 151.7	$ 144.9	$ 156.8	$
Non-Interest Income	14.2	15.8	15.9	19.6	19.0	
Operating Expenses	101.3	109.4	121.2	127.3	137.2	
Net Income	23.5	24.3	27.3	26.8	29.8	
Total Assets	$2,630.1	$2,688.7	$2,727.0	$ 2,974.1	$ 3,526.7	$ 4
Net Loans	988.4	1,007.6	976.8	1,075.7	1,373.9	1
Deposits	2,060.5	2,111.7	2,208.2	2,347.5	2,870.7	3
Total Stockholders' Equity	122.1	142.3	163.5	182.2	203.5	
Market Capitalization	$ 45.0	$ 66.4	$ 99.0	$ 119.3	$ 159.8	$
ROA	0.92%	0.90%	0.96%	0.95%	0.94%	
ROE	19.96%	18.36%	17.99%	15.86%	15.83%	
PER COMMON SHARE(1)						
Earnings	$ 0.34	$ 0.34	$ 0.38	$ 0.37	$ 0.41	$
Dividends (Declared)	0.07	0.06	0.08	0.11	0.12	
Book Value	1.66	1.93	2.22	2.47	2.76	
Market Price	1.01	0.92	1.38	1.66	2.22	
ASSETS BY GEOGRAPHICAL AREA						
Puerto Rico	95.53%	94.65%	94.63%	93.70%	91.31%	
United States	4.47%	5.14%	5.01%	5.23%	7.52%	
Other	0.00%	0.22%	0.36%	1.07%	1.17%	
Total	100.00%	100.00%	100.00%	100.00%	100.00%	
TRADITIONAL DELIVERY SYSTEM						
Banking Branches						
Puerto Rico	110	110	110	112	113	
Virgin Islands		1	2	3	3	
United States	7	7	7	6	9	
Dominican Republic						
Subtotal	117	118	119	121	125	
Non-Banking Offices						
Equity One						
Popular Cash Express						
Popular Finance						
Popular Leasing						
Popular Leasing, U.S.A.						
Popular Mortgage						
Popular Securities						
Levitt Mortgage						
GM Group						
Subtotal						
Total	117	118	119	121	125	
ELECTRONIC DELIVERY SYSTEM						
ATMs						
Owned						
Puerto Rico				30	78	
Caribbean						
United States						
Subtotal				30	78	
Driven						
Puerto Rico					6	
Caribbean						
Subtotal					6	

Total				30	84
BPPR TRANSACTIONS (IN MILLIONS)					
Electronic Transactions				0.6	4.4
Items Processed	94.8	96.9	98.5	102.1	110.3
EMPLOYEES (FTEs)	3,838	3,891	3,816	3,832	4,110

	1987	1988	1989	1990	1991
SELECTED FINANCIAL INFORMATION					
Net Interest Income	$ 207.7	$ 232.5	$ 260.9	$ 284.2	$ 40
Non-Interest Income	41.0	54.9	63.3	70.9	13
Operating Expenses	185.7	195.6	212.4	229.6	34
Net Income	38.3	47.4	56.3	63.4	6
Total Assets	$ 5,389.6	$ 5,706.5	$ 5,972.7	$ 8,983.6	$ 8,78
Net Loans	2,768.5	3,096.3	3,320.6	5,373.3	5,19
Deposits	4,491.6	4,715.8	4,926.3	7,422.7	7,20
Total Stockholders' Equity	308.2	341.9	383.0	588.9	63
Market Capitalization	$ 260.0	$ 355.0	$ 430.1	$ 479.1	$ 57
ROA	0.76%	0.85%	0.99%	1.09%	0
ROE	13.09%	14.87%	15.87%	15.55%	10
PER COMMON SHARE(1)					
Earnings	$ 0.48	$ 0.59	$ 0.70	$ 0.79	$ 0
Dividends (Declared)	0.17	0.17	0.20	0.20	0
Book Value	3.77	4.19	4.69	4.92	5
Market Price	3.34	4.44	5.38	4.00	4
ASSETS BY GEOGRAPHICAL AREA					
Puerto Rico	94.22%	93.45%	92.18%	88.59%	86
United States	5.01%	5.50%	6.28%	9.28%	10
Other	0.77%	1.05%	1.54%	2.13%	2
Total	100.00%	100.00%	100.00%	100.00%	100
TRADITIONAL DELIVERY SYSTEM					
Banking Branches					
Puerto Rico	126	126	128	173	
Virgin Islands	3	3	3	3	
United States	9	10	10	24	
Dominican Republic					
Subtotal	138	139	141	200	
Non-Banking Offices					
Equity One					
Popular Cash Express					
Popular Finance	14	17	18	26	
Popular Leasing			4	9	
Popular Leasing, U.S.A.					
Popular Mortgage					
Popular Securities					
Levitt Mortgage					
GM Group					
Subtotal	14	17	22	35	
Total	152	156	163	235	
ELECTRONIC DELIVERY SYSTEM					
ATMs					
Owned					
Puerto Rico	139	156	151	211	
Caribbean			3	3	
United States					
Subtotal	139	156	154	214	

Driven					
Puerto Rico	55	68	65	54	
Caribbean					
Subtotal	55	68	65	54	
Total	194	224	219	268	
BPPR TRANSACTIONS (IN MILLIONS)					
Electronic Transactions	12.7	14.9	16.1	18.0	2
Items Processed	139.1	159.8	161.9	164.0	16
EMPLOYEES (FTEs)	4,699	5,131	5,213	7,023	7,

	1993	1994	1995	1996	1997
SELECTED FINANCIAL INFORMATION					
Net Interest Income	$ 492.1	$ 535.5	$ 584.2	$ 681.3	$
Non-Interest Income	125.2	141.3	173.3	205.5	
Operating Expenses	412.3	447.8	486.8	541.9	
Net Income	109.4	124.7	146.4	185.2	
Total Assets	$ 11,513.4	$ 12,778.4	$ 15,675.5	$ 16,764.1	$ 19,
Net Loans	6,346.9	7,781.3	8,677.5	9,779.0	11,
Deposits	8,522.7	9,012.4	9,876.7	10,763.3	11,
Total Stockholders' Equity	834.2	1,002.4	1,141.7	1,262.5	1,
Market Capitalization	$ 1,014.7	$ 923.7	$ 1,276.8	$ 2,230.5	$ 3,
ROA	1.02%	1.02%	1.04%	1.14%	
ROE	13.80%	13.80%	14.22%	16.15%	
PER COMMON SHARE(1)					
Earnings	$ 0.84	$ 0.92	$ 1.05	$ 1.34	$
Dividends (Declared)	0.23	0.25	0.29	0.35	
Book Value	6.38	6.87	7.91	8.80	
Market Price	7.75	7.03	9.69	16.88	
ASSETS BY GEOGRAPHICAL AREA					
Puerto Rico	79.42%	75.86%	75.49%	73.88%	
United States	16.03%	19.65%	20.76%	22.41%	
Other	4.55%	4.49%	3.75%	3.71%	
Total	100.00%	100.00%	100.00%	100.00%	1
TRADITIONAL DELIVERY SYSTEM					
Banking Branches					
Puerto Rico	165	166	166	178	
Virgin Islands	8	8	8	8	
United States	32	34	40	44	
Dominican Republic					
Subtotal	205	208	214	230	
Non-Banking Offices					
Equity One	58	73	91	102	
Popular Cash Express					
Popular Finance	26	28	31	39	
Popular Leasing	8	10	9	8	
Popular Leasing, U.S.A.					
Popular Mortgage			3	3	
Popular Securities				1	
Levitt Mortgage					
GM Group					
Subtotal	92	111	134	153	
Total	297	319	348	383	
ELECTRONIC DELIVERY SYSTEM					
ATMs					
Owned					
Puerto Rico	234	262	281	327	

Caribbean	8	8	8	9
United States	11	26	38	53
Subtotal	253	296	327	389
Driven				
Puerto Rico	86	88	120	162
Caribbean				97
Subtotal	86	88	120	259
Total	339	384	447	648
BPPR TRANSACTIONS (IN MILLIONS)				
Electronic Transactions	33.2	43.0	56.6	78.0
Items Processed	171.8	174.5	175.0	173.7
EMPLOYEES (FTEs)	7,533	7,606	7,815	7,996

	1999	2000
SELECTED FINANCIAL INFORMATION		
Net Interest Income	$ 953.7	$ 982.8
Non-Interest Income	372.9	465.1
Operating Expenses	837.5	877.5
Net Income	257.6	276.1
Total Assets	$ 25,460.5	$ 28,057.1
Net Loans	14,907.8	16,057.1
Deposits	14,173.7	14,804.9
Total Stockholders' Equity	1,661.0	1,993.6
Market Capitalization	$ 3,907.5	$ 3,578.1
ROA	1.08%	1.04%
ROE	15.45%	15.00%
PER COMMON SHARE(1)		
Earnings	$ 1.84	$ 1.97
Dividends (Declared)	0.60	0.64
Book Value	11.51	13.92
Market Price	27.94	26.31
ASSETS BY GEOGRAPHICAL AREA		
Puerto Rico	70.95%	71.80%
United States	25.17%	25.83%
Other	3.88%	2.37%
Total	100.00%	100.00%
TRADITIONAL DELIVERY SYSTEM		
Banking Branches		
Puerto Rico	199	199
Virgin Islands	8	8
United States	91	95
Dominican Republic	31	--
Subtotal	329	302
Non-Banking Offices		
Equity One	138	136
Popular Cash Express	64	132
Popular Finance	51	61
Popular Leasing	12	12
Popular Leasing, U.S.A.	10	11
Popular Mortgage	13	21
Popular Securities	2	3
Levitt Mortgage	2	2
GM Group	4	4
Subtotal	296	382
Total	625	684

ELECTRONIC DELIVERY SYSTEM		
ATMs		
Owned		
Puerto Rico	442	478
Caribbean	65	37
United States	99	109
Subtotal	606	624
Driven		
Puerto Rico	102	118
Caribbean	851	920
Subtotal	953	1,038
Total	1,559	1,662
BPPR TRANSACTIONS (IN MILLIONS)		
Electronic Transactions	159.4	199.5
Items Processed	171.0	160.2
EMPLOYEES (FTEs)	11,501	10,651

(1) Per common share data adjusted for stock splits in 1981, 1985, 1989, 1996 and 1998.

STRATEGIC OBJECTIVES

FORTRESS PUERTO RICO

STRENGTHEN OUR COMPETITIVE POSITION IN OUR PRINCIPAL MARKET, PUERTO RICO:

- Aligning our distribution systems with the different market segments;

- Using electronic means to bring financial services to the unbanked and to offer more services, in more places, with greater convenience at a lower cost, to our current and prospective customers.

PANAMERICAN BANK

EXPAND OUR BUSINESS FRANCHISE OUTSIDE PUERTO RICO THROUGH TWO INITIATIVES THAT COMPLEMENT AND SUPPORT EACH OTHER:

- In the United States, maintaining our growth in highly concentrated Hispanic areas, with emphasis on the small and middle commercial markets;

- In the Caribbean, using our competitive advantage in electronic banking to become the principal financial entity in the region.

DIVERSIFICATION

Continue diversifying our financial services to offer more alternatives to our customers.

ORGANIZATIONAL QUALITY

Strengthen our organization to achieve excellence in our results:

- Fully developing the capabilities of our employees;

- Aligning our organization with our business objectives;

- Continuously enhancing our processes.

[PHOTO]

LETTER TO SHAREHOLDERS

TOTAL RETURN INCLUDING DIVIDEND AND DIVIDEND REINVESTMENT

[CHART]

The year 2000 was a challenging one. The economy felt the impact of higher oil prices, an erosion in consumer confidence and several increases in interest rates with the concomitant downturn in the financial markets. This was reflected in the price of our stock, which closed at $26.31, a decline of 5.8% from December 31, 1999.

Your company reported net income of $276.1 million in the year 2000, an increase of 7.2% over 1999. Earnings per common share (EPS) totaled $1.97, compared with $1.84 in 1999. Total assets amounted to $28 billion, 10% higher than in the previous year. These results translated into a return on assets (ROA) of 1.04% and a return on common equity (ROE) of 15.0%.

These results are magnified by the various challenges, some unexpected, that we had to face. Our Y2K transition went smoothly, as a result of the thorough efforts undertaken in previous years. We also devoted much time and effort to excel in our compliance with all Bank Secrecy Act procedures and regulations, signing a formal Written Agreement with the Federal Reserve Bank of New York to that effect. In the Dominican Republic, we sold our participation in Banco Fiduciario to the larger Banco Hipotecario Dominicano and retained an option to acquire 20% of the resulting institution.

Your company reported net income of $276.1 million in the year 2000, an increase of 7.2% over 1999.

After an effort of nearly four years, we concluded that it made sense to sell our U.S. credit card portfolio and to enter into a strategic alliance with Metris in order to continue to offer this product to our current customers and to make further inroads in the U.S. Hispanic market. Likewise, we entered into an agreement with Cendant, which will allow us to increase our production of home mortgages and also better serve the U.S. Hispanic market.

A STORY OF CONTINUOUS GROWTH

All these efforts were accompanied with a sensible budget control of all the Corporation's expenses without curtailing our strategic investments.

On a more positive note, we completed the consolidation of various processing activities formerly performed at Banco Popular into GM Group, the processing company acquired in 1999. We launched an important new subsidiary, Popular Insurance, and entered the market for the distribution of insurance products. We also acquired Centro Finance in Puerto Rico, a small finance company subsequently merged into Popular Finance, and Aurora National Bank in Illinois, which was merged into our Banco Popular North America operations. Mi Banco Popular, our Internet banking initiative, was introduced in May, and ended the year 2000 with nearly 60,000 subscribers, well in excess of our expectations. We will continue to build on the success of this product in the coming months.

10 YEARS OF GROWTH
dollars in millions

[CHART]

Our achievements this year, and every year, come as a result of the efforts of Our People, more than 10,000 individuals who are committed to our values and our vision. We are guided by a Board of Directors that is equally committed to our future. At this year's Stockholders' Annual Meeting, Alfonso Ballester and Salustiano Alvarez will retire from the Board of Banco Popular de Puerto Rico upon reaching the mandatory retirement age. We are grateful for their many contributions throughout the years. Mr. Ballester has served on the Board of Banco Popular for 26 years and, until recently, was Vice Chairman of Popular, Inc. We were also saddened by the death of Don Julio Vizcarrondo Vivas, who served on the Banco Popular Board from 1975 to 1982 and on the Board of the Banco Popular Foundation from its inception until his death.

The end of the year marked the tenth anniversary of the merger with BanPonce Corporation, an important turning point for our corporation. In 1990, our combined market capitalization was $510 million. Ten years later, we have a market capitalization of $3.6 billion, which translates into a compound annual growth rate of 22%. This transaction exemplifies our focus on long-term growth and profitability. It demonstrates that our horizon is longer than the next quarter, or even the next year. It is rather a story of continuous growth, as can be seen in the Historical Financial Summary.

Inspired by our values and guided by our strategies, we look ahead with optimism to a new year of serving our clients, solidifying our markets and securing our future.

/s/ Richard L. Carrion

Richard L. Carrion
Chairman
President
Chief Executive Officer

[PHOTO]

DISTRIBUTION NETWORK

Puerto Rico

- 199 branches

- 478 ATMs

- 25,000 point-of-sale terminals

- TeleBanco Popular - telephone banking

- Mi Banco Popular - online banking

- 9 Commercial Banking Centers

United States

- 95 branches in 6 states

- 109 ATMs

- Popular Net Banking - online banking

Caribbean

- 8 branches

- 12 ATMs

- 779 point-of-sale terminals

- Popular TeleBank - telephone banking

Our Business

RETAIL AND COMMERCIAL BANKING

$15 BILLION IN DEPOSITS

BANCO POPULAR DE PUERTO RICO, Popular, Inc.'s main subsidiary and the largest commercial bank in Puerto Rico, offers individuals and businesses a wide variety of financial products and services. With $10 billion in deposits and $8 billion in loans, it is the leader in both markets. Banco Popular has the most extensive and complete distribution network on the island, with 199 branches, 478 ATMs, a 24-hour call center and various alternative delivery channels. The year 2000 was marked by technological innovation and expansion for the Bank through new and diverse distribution channels, products and services.

As part of its commitment to offer greater convenience to its clients, Banco Popular introduced its online banking service Mi Banco Popular, www.bppr.com, in May 2000. The new Internet site allows clients to access account information for checking and savings accounts, credit cards, IRAs, CDs, leases and loans. Clients can also transfer funds, pay their bills online, apply for loans and credit cards and open deposit accounts. By year end, Mi Banco Popular boasted more than 60,000 subscribers and figured among the top five local websites visited by Puerto Ricans.

Constantly looking for new and attractive alternatives for its individual clients, Banco Popular, in an alliance with

Celulares Telefonica, began offering clients the ability to purchase prepaid cellular minutes with their ATH (A Toda Hora) ATM card by telephone.

Banco Popular de Puerto Rico also offers a complete line of products, services and value-added solutions to small and mid-sized businesses, corporations, government and not-for-profit organizations. It has nine Commercial Banking Centers (CBCs) located throughout the island to offer convenience and personal service to its commercial clients. Business clients also benefited from new products and services launched this year, such as TeleNomina, a service that allows clients to process their payroll using TelePago Popular, our telephone payment system. In addition, the Bank expanded its family-owned business program to include small and mid-sized businesses, offering four conferences during 2000.

In the United States, BANCO POPULAR NORTH AMERICA (BPNA) is the largest Hispanic bank, offering individuals and businesses a wide variety of credit and deposit products. The Bank has 95 branches located in California (16), Florida (9), Illinois (21), New Jersey (12), New York (32), and Texas (5), states that are home to over 80% of all Hispanics in the United States. BPNA continued to expand its presence with the opening of three new branches and the acquisition of Aurora National Bank in Chicago, Illinois. During 2000, BPNA also introduced Popular Net Banking, an Internet banking service that allows customers to review their account balances and transaction history for the past 90 days, transfer money between specified Banco Popular accounts and pay their bills online.

In the year 2000, BPNA created national line of 16 deposit products, both retail and commercial, to substitute more than 245 products that resulted from the Bank's acquisitions and rapid growth. The effort, led by a newly created and centralized Marketing and Product Development Division, focused on selecting the most attractive features from the vast number of existing products. The uniformity achieved will undoubtedly result in greater client satisfaction and operational efficiency.

BPNA has traditionally focused significant efforts on Small Business Administration (SBA) and minority lending. In 2000, Banco Popular originated approximately $100 million in new loans, which placed the Bank among the top SBA lenders in the nation.

$13 BILLION IN TOTAL LOANS

[PHOTO]

Popular, Inc. conducts its banking business in the Caribbean through BANCO POPULAR VIRGIN ISLANDS. Its network consists of eight branches in the U.S. and British Virgin Islands. With a team of more than 220 employees, Banco Popular has established itself as one of the leading institutions in the area. Deposits at year end totaled $722 million, an increase of 17% over the previous year.

Offers a full range of banking products and services in Puerto Rico, the United States and the Caribbean.

[PHOTO]

[PHOTO]

MORTGAGE & CONSUMER LENDING

$5.4 BILLION IN ORIGINATIONS

POPULAR MORTGAGE, Banco Popular de Puerto Rico's mortgage subsidiary, has more than 60 years' experience and is the second mortgage origination business in Puerto Rico. It continued to expand and enhance its distribution network, opening seven new mortgage centers for a total of 21 located throughout the island. As part of its strategy to offer more choices to its clients, Popular Mortgage introduced several products and services during the year 2000: a personal loan with mortgage collateral, a mortgage that does not require income verification, a 100% loan-to-value mortgage loan with cash collateral and a loan for individuals with damaged credit. Popular Mortgage also introduced CasaFacil, a service that allows clients to process and originate mortgage and construction loans over the telephone.

In the United States, BANCO POPULAR, NATIONAL ASSOCIATION and BANCO POPULAR NORTH AMERICA together originated approximately $150 million in new mortgages during the year 2000. It was also a year of important steps in the business, with the establishment of a marketing and processing alliance with Cendant Mortgage, a leading mortgage lender in the United States. In accordance with the partnership, Cendant processes and services loans on a private label basis. In addition, the Bank originates loans through Cendant's real estate brands, such as Century 21, Coldwell Banker and ERA.

POPULAR FINANCE, ranked among the top consumer finance institutions in Puerto Rico, is engaged in small personal loans and second mortgages. Popular Finance acquired Centro Finance Corporation in May 2000, increasing its portfolio by 17% and adding seven branches to its network, for a total of 61. In 2000 the subsidiary saw a significant increase in the volume of mortgage loans, a result of a comprehensive sales training program for employees and an advertising campaign created for print media and television.

In the United States, EQUITY ONE is engaged in the business of personal and mortgage loans and retail financing to merchants and dealers. With $2.0 billion in total loans and assets reaching $2.1 billion, Equity One operates through an extensive network of 136 offices located throughout 30 states. In the year 2000, Equity One relocated its Headquarters and Operations Center to a state-of-the-art facility. It enhanced its operational infrastructure through additional investments in areas such as marketing, technology and human resources. In addition, it undertook an initiative to enhance the quality of customer service, leading to an 8% increase in its customer base.

Provides tailored financing alternatives to meet individual needs.

[PHOTO]

DISTRIBUTION NETWORK

PUERTO RICO

- Popular Finance has 54 offices and 7 mortgages centers in 37 municipalities

- Popular Mortgage has 21 offices in 16 municipalities

UNITED STATES

- Equity One has 136 offices in 30 states

- Banco Popular, National Association originates residential mortgages through Banco Popular North America, Cendant real estate brands and brokers throughout the continental U.S.

[PHOTO]

Assets
dollars in thousands

[CHART]

LEASING

$120 MILLION IN REVENUES

POPULAR LEASING is the leader in the leasing business in Puerto Rico. With a network of 12 offices and a team of 250 employees, Popular Leasing offers individual and commercial clients a wide variety of leasing alternatives. In addition to vehicle leasing, it offers medical, industrial, construction, telecommunications and computer equipment leasing in an alliance with El Camino Resources, a leading leasing company in the United States. Popular Leasing also has a fleet of over 1,100 passenger vehicles and commercial units for daily rental. During 2000, the company expanded by acquiring two local portfolios, thereby strengthening its leadership position in the market. It also introduced several products and services, such as a lease program with Dell computers for individuals and small and mid-sized businesses, and Starting Connection, a vehicle and equipment lease program for graduating college students.

In the United States, the Corporation conducts its leasing business through POPULAR LEASING, U.S.A., a subsidiary of Banco Popular North America. The company offers small-ticket equipment leasing in 11 offices located in eight states. Its professional staff has years of experience in leasing, providing tailored solutions and quality services to its diverse client base. In addition, at Popular Leasing's website, www.popularleasingusa.com, clients can obtain information about the company and submit applications online. During the year 2000, Popular Leasing doubled its staff and established new executive offices in Ellisville, Missouri. Assets grew by over 40% from the previous year, totaling $105 million at year end.

Delivers leasing solutions to individuals and businesses in Puerto Rico and the United States.

[PHOTO]

Advises all customers, from starting investors to large corporations, on how to achieve their financial goals.

Assets Under Management
percentage

[CHART]

INVESTMENT

$13 BILLION IN ASSETS UNDER MANAGEMENT

POPULAR SECURITIES is the subsidiary dedicated to providing investment and financial advising services to individuals and institutions in Puerto Rico. In the retail business, Popular Securities offers the sale of securities, financial advising, and full investment services through 48 representatives available at more than 190 Banco Popular branches and three independent branches. In order to complement its brick-and-mortar distribution system and increase customer convenience, Popular Securities launched Online Investing in 2000. This new Internet service, accessible at www.popularsecurities.com, allows clients to buy and sell stock, bonds and mutual funds at a discount, and review market information and news.

On the institutional side, Popular Securities handles bond issues for the Commonwealth of Puerto Rico and local corporations, and provides financial advisory services to a wide variety of public and private entities. During the year 2000, Popular Securities participated in 22 transactions totaling $4.9 billion.

Two divisions of Banco Popular de Puerto Rico complement the investment services offered by Popular Securities. POPULAR ASSET MANAGEMENT, established in 1998, provides institutional investment management services, and reached $2.3 billion in assets under management by year end. The TRUST DIVISION, with a long-standing tradition of service, offers administration services for employee benefit plans, corporate and personal trusts, and supplies various services to local mutual funds.

[PHOTO]

Serves more than 100 independent agents and brokers in Puerto Rico.

INSURANCE

Popular, Inc. further diversified its business during the year 2000 through both the acquisition of a local insurance agency and the creation of POPULAR INSURANCE, INC. As a subsidiary of Banco Popular, National Association, Popular Insurance is a general agency that offers insurance products in Puerto Rico. Representing various major insurance companies, both as a general agency and as a corporate agent, Popular Insurance serves more than 100 independent agents and brokers while seeking to become the principal service provider for this important industry group on the island. Popular Insurance presently provides insurance services to several affiliated companies.

It operates two offices - one on the offshore island of Culebra and one in San Juan - and plans to add several sales offices throughout Puerto Rico during 2001. Currently, the staff is composed of 37 well-experienced employees, a number that will grow to serve the 2001 projected sales volume. At year end, Popular Insurance assets totaled $8.9 million.

Popular Insurance's plans for the future include expanding the array of products and services it offers, as well as maximizing the use of technology to increase product accessibility in the marketplace while reducing processing and operating costs.

PROCESSING

$80 MILLION IN REVENUES

In 2000, Popular, Inc. completed the integration into the Corporation of GM Group, the leading provider of information system (IS) services in the Caribbean Basin acquired in 1999. With offices in San Juan, Caracas, Santo Domingo and Miami, GM GROUP has a solid record of achievement in Puerto Rico and over 10 Latin American countries. Clients such as banks, public utilities, insurance companies, universities, government agencies, service companies, manufacturers and retailers have had their IS needs fulfilled by GM Group for the past three decades. In addition to data processing, GM Group's core business, it is also involved in software and hardware sales, systems design and implementation, consulting, business recovery services and systems education.

As part of the integration process, RED ATH, the largest ATM network in Puerto Rico, was transferred to GM Group to capitalize on its resources and expertise. By year end, Red ATH connected over 850 ATMs and 35,700 point-of-sale (POS) terminals throughout the island.

Popular, Inc.'s expertise and resources in electronic banking, now enhanced by GM Group, have provided a competitive advantage in Caribbean and Latin American markets. The ATM/POS networks developed in the Dominican Republic and Costa Rica have experienced remarkable growth recent years. ATH DOMINICANA is the largest ATM network in the Dominican Republic, connecting 818 ATMs and 9,711 POS terminals from 17 institutions. ATH COSTA RICA, the Corporation's ATM driving and administration business in Costa Rica, connects over 150 ATMs from 22 financial institutions and 5,000 POS terminals. In 2000, ATH Costa Rica purchased CreST, S.A., a local card processor and POS acquirer, greatly expanding its capabilities in the country. The company concentrated efforts in consolidating at the physical, operational and human resources levels to swiftly leverage the new opportunities brought about by the acquisition.

Provides innovative solutions to clients, allowing them to stay in the forefront of technology.

[PHOTO]

ATH Network Transactions
in millions

[CHART]

CONSUMER SERVICES

[PHOTO]

DISTRIBUTION NETWORK

[CHART]

$2.7 MILLION CHECKS PROCESSED

POPULAR CASH EXPRESS, Popular, Inc.'s subsidiary dedicated to the business of check cashing and money transfers, now ranks 7th among all check-cashing operations in the United States.

Since over half of the 32 million Hispanics in the United States are unbanked, the Corporation recognized the need for an alternative approach to complement Banco Popular North America's efforts to become the principal financial services provider to Hispanics. In 1998, Popular, Inc. made the strategic decision of establishing Popular Cash Express as an effective tool to attract the unbanked population and to eventually draw it into the financial mainstream.

Offers financial alternatives to the unbanked population in the United States.

Since its creation, Popular Cash Express has quickly expanded, and now has operations in Arizona, California, Florida, New York, Texas and Washington, D.C., all of which have a very high concentration of Hispanics. It offers a wide variety of retail financial services, such as check cashing, wire transfers, utility payments and money orders. More recently, PCE has expanded on this format by offering additional services that have not generally been offered at traditional check-cashing locations, such as insurance, travel services and other value-added products. Locations are clean, spacious, well-lighted and manned with bilingual staff to service its large Spanish-speaking customer base.

Popular Cash Express experienced dramatic growth/expansion in 2000. It opened 22 offices and added 8 mobile units, for a total of 86 and 46, respectively. Revenues increased by 45%. Given its strategic importance as a tool to attract the unbanked, the Corporation plans to continue Popular Cash Express' expansion and evolution. Closer links between check-cashing locations and Banco Popular North America traditional banking branches will be developed, hybrid locations will be established and intermediate products will be introduced. In that way, when consumers are ready to pursue more traditional banking services, Popular, Inc. will be ready to meet their future needs.

The Banco Popular Foundation has been created to support efforts dedicated to improve the quality of life for Puerto Ricans. It fulfills its mission by promoting in the community a genuine aspiration for excellence, and instilling in our youth a sense of accomplishment.

Donations Granted by Banco Popular Foundation dollars in thousands
[CHART]

[PHOTO]

OUR COMMUNITY

Community involvement has been a mainstay of Banco Popular's 107-year history. The Bank was established in 1893 to provide financial services to those who needed it most, but its vision went beyond business and reached out to the community it served. Ever since its early stages, the institution's social responsiveness has been manifested in a twofold commitment: a strong donations and corporate sponsorship program, and employee participation in non-profit organizations. As the Bank continued to grow, its social responsibility strategy evolved. It was understood that its community involvement required a philanthropic structure that went beyond corporate sponsorship and assumed an enabling role in education and the development of our communities. This paved the way for the establishment of the Banco Popular Foundation in 1979.

THE BANCO POPULAR FOUNDATION originated from the vision of Rafael Carrion Jr., who devoted his entire professional career - 59 years - to Banco Popular. As President of the Bank, Chairman of the Board and Chief Executive Officer, he promoted numerous initiatives that made him feel, as he used to say, responsible and proud that Banco Popular was ever present in promoting the island's progress and well-being. Two decades after its establishment, the Foundation's objective remains unaltered: to involve ourselves actively and effectively in the improvement of the quality of life in the communities we serve. Our focus is primarily on education, attention to the special needs of the most disadvantaged, support for opportunities for positively

[PHOTO]

shaping our youth, promoting self-sufficiency projects for community development and sponsorship of the arts and our culture.

The Foundation obtains its financial support from Banco Popular de Puerto Rico and the Bank's annual musical production. In addition, in a program established in 2000, employees voluntarily contributed more than $186,000 through paycheck deduction. Over the years, a large number of Popular, Inc. employees have demonstrated their commitment to working actively for the social, economic and educational well-being of Puerto Rico. In 2000, more than 1,200 employees expressed interest in being part of the Banco Popular Foundation Volunteer Program, which will be in operation in 2001. Our employees will work hand in hand with schools; homes for the elderly; shelters for victims of abuse; libraries and other projects that positively impact children and youths; heads of households and the elderly; people who are left behind, homeless, sick - in essence, those who search for a better life.

During the year 2000, the Foundation awarded more than 36 new grants, ranging from helping to fund the Nueva Escuela Juan Ponce de Leon, the only public elementary Montessori school for children with special needs, to a voluntary service learning pilot for university students to get them involved in their communities while studying. Another major project included contributions to the Jane Stern Dorado Community Library.

The 2000 musical production was titled Guitarra Mia: A Tribute to Jose Feliciano. In his honor, the Foundation is renovating a music room at the Instituto Loaiza Cordero, a school for visually impaired students. In the United States, funds will be donated to the Lighthouse International, an institution that Jose Feliciano attended in his youth.

The Banco Popular Foundation also manages the Rafael Carrion Jr. Scholarship Fund, established in 1992 with the funds accumulated in Carrion Jr.'s profit sharing plan and in his savings account at the employee's cooperative. Over the

STRENGTHENING OUR COMMUNITY STRATEGY

past eight years, $995,300 have been awarded in 707 scholarships to children of employees and retirees of Popular, Inc. In addition, the Foundation also established the Rafael Carrion Jr. Scholarship with a contribution of $370,500 for Puerto Rican students studying at The Wharton School at the University of Pennsylvania. Eleven scholarships have been granted since the fund was begun in 1994.

Another type of community involvement for the Foundation is its vigorous program of exhibitions at the Rafael Carrion Pacheco Exhibition Hall in the former Banco Popular headquarters in Old San Juan. In the last decade, 14 exhibitions have been presented that have enriched the cultural life of the island and deepened the debate on subjects of community interest. The most recent, Acanga, 100 Years of Puerto Rican Music, attracted more than 14,000 people in its first six months.

BANCO POPULAR DE PUERTO RICO, the Corporation's main subsidiary, also continues with a strong donations and sponsorship program. During the year 2000, approximately $1.4 million were donated to more than 200 non-profit organizations. Of the donations, 82% were for civic and community activities. Among the most significant contributions are the sponsorship of the Raul Julia Theater at the new Puerto Rico Museum of Art; the renovation of Teatro Oliver in Arecibo; Neighborhood Revitalization Initiatives in Caguas, Ponce and San Juan; Sacred Heart University and the Federal Reserve Board's joint economics program for high school students; and the Puerto Rico Community Foundation.

In the continental United States, several organizations in the communities we serve received financial contributions from Banco Popular North America.

Through the Foundation and other programs, Popular, Inc. maintains its strong commitment to involve ourselves actively and effectively in the development of the community in which we operate to promote the highest values and a passion for excellence, focused mainly on our youth.

The guiding spirit in awarding these and future grants is to promote excellence in our relationship with the community. We will seek the participation and commitment of others who also share our vision and passion for excellence in the coming years.

[PHOTO]

SENIOR MANAGEMENT COUNCIL

[PHOTO]
RICHARD L. CARRION
Chairman, President
Chief Executive Officer

[PHOTO]
DAVID H. CHAFEY JR.
Senior Executive Vice President
Retail Banking

[PHOTO]
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Senior Executive Vice President
Chief Financial Officer

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Executive Vice President
Administration

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ROBERTO R. HERENCIA
Executive Vice President
North America

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LARRY B. KESLER
Executive Vice President
Retail Credit

[PHOTO]
HUMBERTO MARTIN
Executive Vice President
Operations

[PHOTO]
EMILIO E. PINERO FERRER, ESQ.
Executive Vice President
Commercial Banking

[PHOTO]
BRUNILDA SANTOS DE ALVAREZ,ESQ.
Executive Vice President
Legal

MANAGEMENT GROUP POPULAR, INC.

PUERTO RICO

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Chairman
President
Chief Executive Officer

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Corporate Banking

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POPULAR LEASING & RENTAL, INC.
Andres Morrell

POPULAR FINANCE, INC.
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POPULAR SECURITIES, INC.
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GM GROUP, INC.
Julio J. Pascual

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Miguel Gil-Mejia

ATH COSTA RICA
Luis Diego Escalante

POPULAR INSURANCE, INC.
Ramon D. Lloveras, Esq.
(Interim)

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Chief Executive Officer

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Vice Chairman of the Board
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Chairman and President
(Retired)
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Grupo Ferre Rangel

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Assistant Secretary
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Eduardo J. Negron, Esq.
Assistant Secretary
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Ernesto N. Mayoral, Esq.
Assistant Secretary
Board of Directors

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Speer

Alfons
Presid
Balles

Felix
Presid
Chief
Destil

Julio
Presid
Chief
Desarr

Bruni
Secre
Board

Eduar
Assis
Board

STOCKHOLDERS' INFORMATION

INDEPENDENT PUBLIC ACCOUNTANTS
PricewaterhouseCoopers

ANNUAL MEETING

The 2001 Annual Stockholders' Meeting of Popular, Inc. will be held on Monday, April 23, at 10:30 a.m. at Centro Europa Building in San Juan, Puerto Rico.

Telephone: (787) 765-9800 ext. 5637, 5527 Fax: (787) 763-5972
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ADDITIONAL INFORMATION
Copies of the Annual Report to the Securities and Exchange Commission on Form 10-K and any other financial information may be obtained by writing to:

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Banco Popular de Puerto Rico
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San Juan, PR 00936-2708

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BD&E Inc., Pittsburgh, Pennsylvania

Photography: Ric Evans
Portrait Photography: Tony Vera

Printing:
Hoechstetter Printing Company
Bowne of Atlanta, Inc.

P.O. BOX 362708

SAN JUAN

PUERTO RICO

00936-2708

FINANCIAL REVIEW AND SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis of Financial Condition and Results of Operations

This financial discussion contains an analysis of the consolidated financial position and financial performance of Popular, Inc. and its subsidiaries (the Corporation) and should be read in conjunction with the consolidated financial statements, notes and tables included elsewhere in this report. The Corporation is a bank holding company, which offers a wide range of products and services through its subsidiaries and is engaged in the following businesses:

- Commercial Banking - Banco Popular de Puerto Rico (BPPR), Banco Popular North America (BPNA), and Banco Popular, National Association (BP, NA)

- Lease Financing - Popular Leasing and Rental, Inc. and Popular Leasing, U.S.A.

- Consumer and Mortgage Banking - Popular Mortgage, Inc., Equity One, Inc., Popular Finance, Inc. and Newco Mortgage Holding Corporation (d/b/a Levitt Mortgage)

- Broker/Dealer - Popular Securities, Inc.

- Processing and Information Technology Services and Products - GM Group, ATH Costa Rica and CreST, S.A.

- Retail Financial Services - Popular Cash Express, Inc.

- Insurance Agency - Popular Insurance, Inc.

OVERVIEW

During the second half of 2000, the U.S. economy has slowed dramatically. The effect of higher interest rates and energy prices lowered consumer spending by the end of the year. The NASDAQ reflected its worst performance since its inception in 1971 and the Dow Jones Industrial Average and the Standard & Poor's 500 showed declines. By the end of 2000, the Federal Reserve changed its bias to an easing one due to increasing recession risks, which resulted in lowering the fed funds rate by 100 basis points during January 2001 to 5.5%.

The Corporation began 2000 with the acquisition of CreST, S.A., a card processor and point-of-sale (POS) provider in Costa Rica. On April 6, 2000, BPNA announced its strategic alliance with Cendant Mortgage, a division of Cendant Corporation, in order to expand the mortgage services to the Hispanic markets within the United States. Cendant Mortgage, a leader in the mortgage banking business in the U.S., is currently processing and servicing loans on a private label basis through BPNA's retail sales staff and telemarketing group. In addition, the alliance calls for the origination of loans by BPNA through Cendant Corporation's real estate brands: Century 21, Coldwell Banker, and ERA.

During the second quarter of 2000, the Corporation continued its business expansion in Puerto Rico with the acquisition of Centro Finance, a small consumer loan company, with nine offices and a loan portfolio of approximately $23 million at date of acquisition. The operations of Centro Finance became part of Popular Finance. Also, Popular North America acquired Aurora National Bank, which operated two branches in Illinois with approximately $111 million in deposits and $81 million in loans at date of acquisition. This financial institution was later merged into BPNA.

Continuing with the Corporation's objective of providing more services to our customers and participating in the competitive insurance business, on July 1, 2000, Popular, Inc. created Banco Popular, National Association, a national bank in Orlando, Florida that oversees the operations of Popular Insurance, Inc.; formerly R&B Insurance Agency.

On August 24, 2000, as part of a merger agreement between Banco Fiduciario (BF) and another financial institution in the Dominican Republic, the Corporation sold its ownership in BF. The Corporation retained an option to acquire a minority interest in the resulting new financial institution. In addition, effective August 21, 2000, the Corporation sold its credit card operations in the United States to Metris Companies, Inc. The signed agreement enables the Corporation to continue offering credit cards, particularly in the Hispanic market. The

Corporation earns a fee, while Metris retains the portfolio and any resulting credit risk.

Table A

Components of Net Income as a Percentage of Average Total Assets

	For the Year			
	2000	1999	1998	1997
Net interest income	3.70%	4.01%	4.27%	4.26%
Provision for loan losses	(0.73)	(0.63)	(0.67)	(0.60)
Securities and trading gains	0.05	--	0.06	0.03
Other income	1.70	1.57	1.36	1.31
	4.72	4.95	5.02	5.00
Operating expenses	(3.30)	(3.52)	(3.52)	(3.46)
Net income before tax and minority interest	1.42	1.43	1.50	1.54
Income tax	(0.38)	(0.36)	(0.36)	(0.40)
Net loss of minority interest	--	0.01	--	--
Net income	1.04%	1.08%	1.14%	1.14%

Table B

Changes in Net Income and Earnings per Common Share

(In thousands, except per common share amounts)	2000 DOLLARS	2000 PER SHARE	1999 Dollars	1999 Per share
Net income applicable to common stock for prior year	$ 249,208	$ 1.84	$ 223,998	$1.65
Increase (decrease) from changes in:				
Other operating income	77,807	0.57	95,200	0.70
Net interest income	29,023	0.21	80,726	0.60
Gain on sale of investment securities	10,563	0.08	(8,295)	(0.06)
Trading account profit (loss)	3,812	0.03	(5,235)	(0.04)
Net loss of minority interest	(1,302)	(0.01)	2,126	0.02
Income tax	(15,677)	(0.12)	(10,449)	(0.08)
Operating expenses	(39,989)	(0.29)	(117,128)	(0.86)
Provision for loan losses	(45,692)	(0.34)	(11,735)	(0.09)
Subtotal	267,753	1.97	249,208	1.84
Change in average common shares(*)	--	--	--	--
Net income applicable to common stock	$ 267,753	$ 1.97	$ 249,208	$1.84

(*) Reflects the effect of the issuance of shares of common stock for the acquisitions completed, net of the shares repurchased, plus the shares issued through the Dividend Reinvestment Plan in the years presented. The average common shares outstanding for the years presented above were 135,907,476 for 2000, 135,585,634 for 1999, and 135,532,086 for 1998.

The Corporation's net income for 2000 amounted to $276.1 million, an increase of $18.5 million or 7.2% over the net income of $257.6 million in 1999. Earnings per common share (EPS) for the year were $1.97 or 7.1% higher than the $1.84 in 1999. The Corporation's return on assets (ROA) for 2000 was 1.04% compared with 1.08% in 1999, while the return on common equity (ROE) was 15.0% in 2000 compared with 15.45% in 1999. Table A presents a five-year summary of the components of net income as a percentage of average assets. At December 31, 2000 the market value and book value per share of the Corporation's common stock was $26.31 and $13.92, respectively compared with $27.94 and $11.51 at the same date in 1999.

Most of the acquisitions completed in the past years involved the payment of a premium, which is being amortized over periods ranging from 4 to 15 years. Cash-based earnings, net income adjusted for the impact of such amortization, may be more indicative of the Corporation's ability to generate income. This method of presentation is not in accordance with generally accepted accounting principles and is included here for illustrative purposes only.

Cash-based earnings (Dollars in thousands)	2000	1999	Change %
Net income	$ 276,103	$ 257,558	7.2%
Add: Amortization of intangibles	34,558	31,788	8.7
Less: Tax effect	(1,689)	(1,537)	9.9
Cash-based earnings	$ 308,972	$ 287,809	7.4%

Further discussion of operating results and the Corporation's financial condition is presented in the following narrative and tables. In addition, Table C provides selected financial data for the past 10 years.

This report contains certain forward-looking statements with respect to the adequacy of the allowance for loan losses, the Corporation's market risk and the effect of legal proceedings on the Corporation's financial condition and results of operations. These forward-looking statements involve certain risks, uncertainties, estimates and assumptions by management. Various factors could cause actual results to differ from those contemplated by such forward-looking statements.

EARNINGS ANALYSIS

Net Interest Income

Net interest income is the main source of earnings of Popular, Inc. It represents the difference or spread between interest and fee income generated by the Corporation's earnings assets over the interest

Table C

Selected Financial Data

(In thousands, except per share data)	2000	1999
CONDENSED INCOME STATEMENTS		
Interest income	$ 2,150,157	$ 1,851,670
Interest expense	1,167,396	897,932
Net interest income	982,761	953,738
Securities and trading gains (losses)	13,431	(944)
Operating income	451,667	373,860
Operating expenses	877,471	837,482
Provision for loan losses	194,640	148,948
Net loss of minority interest	1,152	2,454
Income tax	100,797	85,120
Dividends on preferred stock of BPPR	--	--
Cumulative effect of accounting changes	--	--
Net income	$ 276,103	$ 257,558
Net income applicable to common stock	$ 267,753	$ 249,208
PER COMMON SHARE DATA(*)		
Net income (basic and diluted)	$ 1.97	$ 1.84
Dividends declared	0.64	0.60
Book value	13.92	11.51
Market price	26.31	27.94
Outstanding shares:		
Average	135,907,476	135,585,634
End of period	135,998,617	135,654,292
AVERAGE BALANCES		
Net loans (**)	$ 15,801,887	$ 13,901,290
Earning assets	24,893,366	22,244,959
Total assets	26,569,755	23,806,372
Deposits	14,508,482	13,791,338
Subordinated notes	125,000	125,000
Preferred beneficial interest in Popular North America's junior subordinated deferrable interest debentures guaranteed by the Corporation	150,000	150,000
Total stockholders' equity	1,884,525	1,712,792
PERIOD END BALANCES		
Net loans (**)	$ 16,057,085	$ 14,907,754
Allowance for loan losses	290,653	292,010
Earning assets	26,339,431	23,754,620
Total assets	28,057,051	25,460,539
Deposits	14,804,907	14,173,715
Subordinated notes	125,000	125,000
Preferred beneficial interest in Popular North America's junior subordinated deferrable interest debentures guaranteed by the Corporation	150,000	150,000
Total stockholders' equity	1,993,644	1,660,986
SELECTED RATIOS		
Net interest yield (taxable equivalent basis)	4.23%	4.65%
Return on average total assets	1.04	1.08
Return on average common stockholders' equity	15.00	15.45
Dividend payout ratio to common stockholders	32.47	31.56
Efficiency ratio	61.57	63.08
Overhead ratio	41.96	48.71
Tier I capital to risk-adjusted assets	10.44	10.17
Total capital to risk-adjusted assets	12.37	12.29

(*) Per share data is based on the average number of shares outstanding during the periods, except for the book value which is based on total shares at the end of the periods. All per share data has been adjusted to reflect two stock splits effected in the form of a dividend on July 1, 1998 and July 1, 1996.

(**) Includes loans held-for-sale

Year ended December 31,					
1997	1996	1995	1994	1993	1992
$ 1,491,303	$ 1,272,853	$ 1,105,807	$ 887,141	$ 772,136	$ 740,3
707,348	591,540	521,624	351,633	280,008	300,1
783,955	681,313	584,183	535,508	492,128	440,2
6,202	3,202	7,153	451	1,418	6
241,396	202,270	166,185	140,852	123,762	123,8
636,920	541,919	486,833	447,846	412,276	366,9
110,607	88,839	64,558	53,788	72,892	97,6
74,461	70,877	59,769	50,043	28,151	14,2
--	--	--	385	770	7
--	--	--	--	6,185	
$ 209,565	$ 185,150	$ 146,361	$ 124,749	$ 109,404	$ 85,1
$ 201,215	$ 176,800	$ 138,011	$ 120,504	$ 109,404	$ 85,1
$ 1.50	$ 1.34	$ 1.05	$ 0.92	$ 0.84	$ 0.
0.40	0.35	0.29	0.25	0.23	0.
10.37	8.80	7.91	6.87	6.38	5.
24.75	16.88	9.69	7.04	7.75	7.
134,036,964	132,044,624	131,632,600	131,192,972	130,804,944	121,845,9
135,365,408	132,177,012	131,794,544	131,352,512	130,929,692	130,619,4
$ 10,548,207	$ 9,210,964	$ 8,217,834	$ 7,107,746	$ 5,700,069	$ 5,150,3
17,409,634	15,306,311	13,244,170	11,389,680	9,894,662	8,779,9
18,419,144	16,301,082	14,118,183	12,225,530	10,683,753	9,528,5
10,991,557	10,461,796	9,582,151	8,837,226	8,124,885	7,641,1
125,000	147,951	56,850	56,082	73,967	85,5
122,877	--	--	--	--	
1,370,984	1,193,506	1,070,482	924,869	793,001	668,9
$ 11,376,607	$ 9,779,028	$ 8,677,484	$ 7,781,329	$ 6,346,922	$ 5,252,0
211,651	185,574	168,393	153,798	133,437	110,7
18,060,998	15,484,454	14,668,195	11,843,806	10,657,994	9,236,0
19,300,507	16,764,103	15,675,451	12,778,358	11,513,368	10,002,3
11,749,586	10,763,275	9,876,662	9,012,435	8,522,658	8,038,7
125,000	125,000	175,000	50,000	62,000	74,0
150,000	--	--	--	--	
1,503,092	1,262,532	1,141,697	1,002,423	834,195	752,1
4.84%	4.77%	4.74%	5.06%	5.50%	6.
1.14	1.14	1.04	1.02	1.02	0.
15.83	16.17	14.22	13.80	13.80	12.
25.19	24.63	26.21	27.20	25.39	28.
62.12	61.33	64.88	66.21	66.94	65.
49.66	49.38	53.66	57.24	58.34	55.
12.17	11.63	11.91	12.85	12.29	12.
14.56	14.18	14.65	14.25	13.95	14.

Table D
Net Interest Income - Taxable Equivalent Basis

Year ended December 31,

(Dollars in millions) (In th

Average Volume 2000	Average Volume 1999	Average Volume Variance	Average Yields 2000	Average Yields 1999	Average Yields Variance		Interest 2000	Interest 1999	Var
$ 933	$ 681	$ 252	6.68%	4.91%	1.77%	Money market investments	$ 62,356	$ 33,434	$ 2
7,945	7,349	596	6.85	6.79	0.06	Investment securities	544,608	499,046	4
213	314	(101)	7.33	6.56	0.77	Trading	15,624	20,584	(
9,091	8,344	747	6.85	6.63	0.22		622,588	553,064	6
						Loans:			
						Commercial			
7,216	6,378	838	9.66	9.13	0.53	and construction	696,903	582,148	11
770	690	80	11.80	12.56	(0.76)	Leasing	90,906	86,714	
4,405	3,605	800	8.27	8.04	0.23	Mortgage	364,269	289,757	7
3,411	3,228	183	13.05	13.06	(0.01)	Consumer	445,038	421,711	2
15,802	13,901	1,901	10.11	9.93	0.18		1,597,116	1,380,330	21
$24,893	$22,245	$2,648	8.92%	8.69%	0.23%	TOTAL EARNING ASSETS	$2,219,704	$1,933,394	$28
						Interest bearing deposits:			
$ 1,811	$ 1,746	$ 65	3.60%	3.08%	0.52%	NOW and money market	$ 65,195	$ 53,687	$ 1
4,113	4,132	(19)	2.89	2.91	(0.02)	Savings	118,823	120,259	(
5,549	4,874	675	6.22	5.71	0.51	Time deposits	345,355	278,269	6
11,473	10,752	721	4.61	4.21	0.40		529,373	452,215	7
7,781	5,993	1,788	6.53	5.30	1.23	Short-term borrowings	508,029	317,646	19
1,894	1,833	61	6.87	6.99	(0.12)	Medium and long-term debt	129,994	128,071	
21,148	18,578	2,570	5.52	4.83	0.69	TOTAL INTEREST BEARING LIABILITIES	1,167,396	897,932	26
3,035	3,039	(4)				Demand deposits			
710	628	82				Other sources of funds			
$24,893	$22,245	$2,648	4.69%	4.04%	0.65%				
			4.23%	4.65%	(0.42%)	NET INTEREST MARGIN AND NET INTEREST INCOME	1,052,308	1,035,462	1
			3.40%	3.86%	(0.46%)	NET INTEREST SPREAD			
						TAXABLE EQUIVALENT ADJUSTMENT	69,547	81,724	(1
						NET INTEREST INCOME	$ 982,761	$ 953,738	$2

Note: The changes that are not due solely to volume or rate are allocated to volume and rate based on the proportion of the change in each category.

expense paid on deposits and borrowed funds. It is normally impacted by fluctuations in the volumes and mix of earning assets and interest-bearing liabilities, changes in interest rates and by the repricing characteristics of these assets and liabilities.

The average key index rates for the years 1998 through 2000, which impacted most financial instruments of the Corporation, were as follows:

	2000	1999	1998
Prime rate	9.23%	8.00%	8.35%
Fed funds rate	6.26	4.95	5.35

3-month LIBOR	6.54	5.42	5.56
3-month Treasury	5.98	4.76	4.89
2-year Treasury	6.20	5.42	5.12
FNMA 30-year	8.14	7.66	7.11

As further discussed in the Risk Management section, the Corporation has a comprehensive set of policies and procedures that is utilized to monitor and control the risk associated with the

Year ended December 31,

(Dollars in millions) (In t

Average Volume 1999	Average Volume 1998	Average Volume Variance	Average Yields 1999	Average Yields 1998	Average Yields Variance		Interest 1999	Interest 1998	Va
$ 681	$ 754	$ (73)	4.91%	4.88%	0.03%	Money market investments	$ 33,434	$ 36,781	$
7,349	6,290	1,059	6.79	7.13	(0.34)	Investment securities	499,046	448,426	
314	287	27	6.56	6.60	(0.04)	Trading	20,584	18,943	
8,344	7,331	1,013	6.63	6.88	(0.25)		553,064	504,150	
						Loans:			
6,378	5,221	1,157	9.13	9.24	(0.11)	Commercial and construction	582,148	482,234	
690	628	62	12.56	12.73	(0.17)	Leasing	86,714	79,929	
3,605	3,000	605	8.04	8.57	(0.53)	Mortgage	289,757	256,902	
3,228	3,082	146	13.06	12.97	0.09	Consumer	421,711	399,784	
13,901	11,931	1,970	9.93	10.22	(0.29)		1,380,330	1,218,849	1
$22,245	$19,262	$2,983	8.69%	8.95%	(0.26)%	TOTAL EARNING ASSETS	$1,933,394	$1,722,999	$2
						Interest bearing deposits:			
$ 1,746	$ 1,460	$ 286	3.08%	3.35%	(0.27)%	NOW and money market	$ 53,687	$ 48,846	$
4,132	3,761	371	2.91	3.06	(0.15)	Savings	120,259	114,958	
4,874	4,437	437	5.71	5.58	0.13	Time deposits	278,269	247,688	
10,752	9,658	1,094	4.21	4.26	(0.05)		452,215	411,492	
5,993	4,623	1,370	5.30	5.45	(0.15)	Short-term borrowings	317,646	251,724	
1,833	1,646	187	6.99	7.01	(0.02)	Medium and long-term debt	128,071	115,475	
18,578	15,927	2,651	4.83	4.89	(0.06)	TOTAL INTEREST BEARING LIABILITIES	897,932	778,691	1
3,039	2,612	427				Demand deposits			
628	723	(95)				Other sources of funds			
$22,245	$19,262	$2,983	4.04%	4.04%	(0.00)%				
			4.65%	4.91%	(0.26)%	NET INTEREST MARGIN AND NET INTEREST INCOME	1,035,462	944,308	
			3.86%	4.06%	(0.20)%	NET INTEREST SPREAD			
						TAXABLE EQUIVALENT ADJUSTMENT	81,724	71,296	
						NET INTEREST INCOME	$ 953,738	$ 873,012	$

composition and repricing of its earning assets and interest-bearing liabilities and to assist management in maintaining stability in the net interest margin under varying interest rate environments.

Net interest income for the year ended December 31, 2000 reached $982.8 million, an increase of $29.1 million or 3.0% when compared with $953.7 million reported in 1999. In 1998, net interest income amounted to $873.0 million.

Table D presents the different components of net interest income segregated by its major categories. It is presented on a taxable equivalent basis, to facilitate the comparison among loans and investment securities whose income is exempt for income tax purposes. The conversion is done using the applicable statutory income tax rates. Non-accrual loans have been included in the respective average loan, and lease balances. Average outstanding securities balances are based upon amortized cost excluding any unrealized gains or losses on securities available-for-sale.

The taxable equivalent adjustment amounted to $69.5 million in the year 2000 compared with $81.7 million in 1999 and $71.3 million in 1998. The decline in the adjustment relates to an increase of 69 basis points in the average cost of interest bearing liabilities compared to an increase of six basis points in investment securities, thus

increasing significantly the interest expense disallowance

required by the Internal Revenue Code of Puerto Rico and reducing the benefit derived from the exempt interest income. The taxable equivalent adjustment rose from 1998 to 1999 mostly due to a higher average volume of exempt investments.

The increase of $16.8 million in net interest income, on a taxable equivalent basis, was the effect of a favorable variance of $64.3 million due to a higher volume of average earning assets and a negative variance of $47.5 million due to a lower net interest margin.

Average earning assets increased by $2.6 billion or 11.9% from $22.2 billion in 1999. This increase was primarily attributed to the growth of $1.9 billion or 13.7% in the average loan portfolio. Commercial and mortgage loans accounted for 86.2% of the increase in the average loan balance. The rise resulted from the Corporation's sustained business growth and to a continuous aggressive marketing campaign to attract mortgage loans. The yield on average loans increased by 18 basis points, mainly as a result of the Federal Reserve's tightening policy during mid-1999 and 2000, which affected positively the yield on commercial loans. Although other loan categories were also positively impacted by the hike in rates, due to the fact that approximately 50% of the commercial and construction loan portfolios have floating or adjustable rates, the increase in the yield of commercial loans accounted for almost 59% of the total increase in interest income associated to yields.

As shown in Table D, the average volume of the investment portfolio and money markets increased by $596 million and $252 million, respectively, from 1999. The growth in investment securities was comprised principally of U.S. agency securities, which are tax exempt in Puerto Rico, partially offset by lower average levels of U.S. Treasury securities. This reduction was mostly attributable to management's focus on the replacement of lower-yielding assets to better position its investment portfolio due to the prevailing interest rate scenarios. The average yield on investment securities, on a taxable equivalent basis, increased to 6.85% from 6.79% reported in 1999, while the average yield on money market investments also increased to 6.68% from 4.91% in 1999, mostly as a result of higher market rates.

As a result of the increase in the average yield on loans and investment securities, due to the higher interest rate scenario that prevailed during 2000, and the changes in the composition of these portfolios, the average yield on earning assets increased 23 basis points from 8.69% in 1999 to 8.92% in 2000.

The higher volume of earnings assets was primarily funded by increases of $721 million in interest bearing deposits and $1.8 billion in borrowings. Non-interest-bearing deposits remained stable at $3.0 billion. The rise in interest bearing deposits was principally attributed to higher levels of time deposits. Table L presents a detail of average deposits by category. The average cost of interest bearing deposits increased by 40 basis points from 1999 due to a higher interest rate environment. Average short-term borrowings, comprised of Fed funds, repurchase agreements and commercial paper, rose $1.8 billion or 29.8% since 1999, whereas their average cost increased by 123 basis points reflecting the rise in market rates as stated above.

Net interest margin is the difference between the average yield obtained on earning assets and the average rate paid for all liabilities used to fund those assets, including both interest and non-interest sources of funds. The net interest margin of the Corporation, on a taxable equivalent basis, declined 42 basis points from 4.65% in 1999 to 4.23% in 2000. This margin was highly impacted by the changes in interest rates imposed by the Federal Reserve during mid-1999 and 2000. Since the Corporation had a liability sensitive structure, its borrowings and deposits repriced at a faster pace than its earning assets, thus resulting in a decrease in the net interest margin in 2000.

During the last months of 2000 market rates started to stabilize and in January 2001 the Federal Reserve decreased the federal funds rate and discount rate by 100 points to 5.5% and 5.0%, respectively. These actions were taken in light of further weakening of sales and production, and in the context of lower consumer confidence, tight conditions in some segments of financial markets and high-energy prices debilitating household and business purchasing power. In the event interest rates continue to decline in 2001, the Corporation could experience a slightly positive effect in its net interest margin, as the cost of funds should decrease at a more rapid pace than the yield on earning assets.

As shown in Table D, net interest income, on a taxable equivalent basis, amounted to $1.0 billion in 1999, up $91.2 million, or 9.7%, compared to 1998. This increase was attributable to a higher level of average earning assets in 1999, partially offset by a lower net interest margin. Average earning assets were $22.2 billion, compared with $19.2 billion in 1998, an increase of $3.0 billion or 15.5%. Commercial and mortgage loans, as

well as investment securities, were the primary areas of growth in earning assets in 1999. The net interest margin on a taxable equivalent basis for 1999 decreased by 26 basis points when compared to 1998. This variance was the result of a decrease in the yield on average earning assets, primarily due to an environment of lower interest rates as compared with 1998. Also, the cost of short-term financing in the money markets increased substantially during the last few months of 1999. This had an adverse effect on the Corporation's cost of funds primarily during the last quarter of 1999, as money market rates increased more than was expected as a result of a tightening policy by the Fed in November 1999.

Provision for Loan Losses

The provision for loan losses reflects management's assessment of the adequacy of the allowance for loan losses to cover losses inherent in the loan portfolio after taking into account the net charge-offs for the current period and loan impairment. The provision for loan losses was $194.6 million for the year ended December 31, 2000, an increase of $45.7 million, or 30.7%, from $148.9 million recorded in 1999. The provision for loan losses amounted to $137.2 million in 1998. The increase in the provision for loan losses was primarily the result of a rise in the level of charge-offs and non-performing assets, loan growth and the inherent risk in the loan portfolio.

Table E
Non-Interest Income

	Year ended December 31,				
(Dollars in thousands)	2000	1999	1998	1997	19
Service charges on deposit accounts	$125,519	$118,187	$103,732	$ 94,141	$ 85
Other service fees:					
Credit card fees and discounts	60,652	49,233	36,038	29,437	23
Debit card fees	30,513	22,785	17,702	15,768	10
Sale and administration of investment products	17,298	17,452	11,890	9,557	5
Check cashing fees	14,505	11,999	2,631	414	
Mortgage servicing fees, net of amortization	12,561	11,300	9,131	9,129	7
Trust fees	9,481	9,928	8,873	6,799	6
Processing fees	28,528	8,312			
Insurance fees	10,423	6,903	8,690	9,537	7
External payments	6,319	4,975	3,158	2,204	2
Other fees	26,754	26,840	18,462	15,805	13
Total other service fees	217,034	169,727	116,575	98,650	77
Other income	109,114	85,946	58,353	48,605	39
Total	$451,667	$373,860	$278,660	$241,396	$202
Non-interest income to average assets	1.70%	1.57%	1.36%	1.31%	
Non-interest income to operating expenses	51.47	44.64	38.68	37.90	3

The Credit Risk Management and Loan Quality section includes a more detailed analysis of the allowance for loan losses, net charge-offs, and credit quality statistics.

Non-Interest Income

The Corporation through its business expansion strategies continues to emphasize growth in fee revenue with services beyond traditional lending and deposit activities. Non-interest income, excluding securities and trading gains, amounted to $451.7 million in 2000, compared with $373.9 million in 1999, representing an increase of $77.8 million, or 20.8%. This increase was almost twice the increase in operating expenses in 2000 driving the ratio of non-interest income to operating expenses to above 51% for the first time. In 1998, these revenues totaled $278.7 million. The increase during 2000 was driven by a rise of $47.3 million in other service fees, $23.2 million in other operating income and $7.3 million in service charges on deposit accounts. Non-interest income categories compared to the previous four years are presented in Table E. As a percentage of average assets, these revenues represented 1.70%, 1.57% and 1.36% for 2000, 1999 and 1998, respectively. The sustained increase in most categories has helped to consistently improve the ratio of non-interest income to operating expenses from 37.32% in 1996 to 51.47% in 2000.

Service charges on deposits accounts totaled $125.5 million in 2000, an increase of 6.2% from the $118.2 million reported in 1999. The increase from 1999 was primarily the result of higher activity on commercial accounts, together with new account and transactional charges implemented in commercial and retail deposit accounts. Somewhat tempering the rise in service charges on deposit accounts were lower charges on demand deposit accounts and returned checks. In 1998, these revenues amounted to $103.7 million. Measured as a percentage of average deposits, service charges were 0.87% in 2000, 0.86% in 1999 and 0.85% in 1998.

Other service fees were $217.0 million an increase of 27.9% from 1999. Most categories exhibited growth in 2000, with strong increases recorded in processing fees, credit card fees and discounts, and debit card fees. Higher processing fees, which rose $20.2 million from 1999, were primarily generated by GM Group, acquired in mid-1999. Credit card fees and discounts grew $11.4 million or 23.2% when compared with 1999. This overall increase was mostly attributed to the implementation in Puerto Rico, early this year, of late payment and cash advance fees on credit cards, and to an increase in customer activity. Debit card fees, consisting principally

of interchange income and other fees from debit card and ATM usage, as well as rental income from point-of-sale (POS) terminals increased $7.7 million or 33.9% from the $22.8 million reported in 1999.

Table F
Operating Expenses

(Dollars in thousands)	Year ended December 31, 2000	1999	1998	1997	1
Salaries	$306,529	$289,995	$247,590	$211,741	$18
Pension and other benefits	68,734	72,820	67,743	69,468	6
Profit sharing	18,913	23,881	22,067	25,684	2
Total personnel costs	394,176	386,696	337,400	306,893	27
Equipment expenses	98,022	88,334	75,302	66,446	5
Net occupancy expense	67,720	60,814	48,607	39,617	3
Professional fees	65,889	67,955	58,087	46,767	3
Business promotion	46,791	45,938	39,376	33,569	2
Communications	45,689	43,146	36,941	33,325	2
Amortization of intangibles	34,558	31,788	27,860	22,874	1
Other taxes	34,125	33,290	32,191	30,283	2
Printing and supplies	20,828	20,709	17,604	15,539	1
Other operating expenses:					
Transportation and travel	10,112	10,426	7,968	7,186	
FDIC assessment	2,846	1,782	1,497	1,499	
All other	56,715	46,604	37,521	32,922	2
Subtotal	483,295	450,786	382,954	330,027	26
Total	$877,471	$837,482	$720,354	$636,920	$54
Efficiency ratio	61.57%	63.08%	62.55%	62.12%	
Personnel costs to average assets	1.48	1.62	1.65	1.67	
Operating expenses to average assets	3.30	3.52	3.53	3.46	
Assets per employee (in millions)	$ 2.63	$ 2.21	$ 2.20	$ 2.18	$

Average debit card monthly transactions increased to 6,085,000 as of December 31, 2000, from 5,155,000 a year earlier. The number of POS terminals installed increased 16.4% to 25,788 in December 31, 2000.

Insurance fees totaled $10.4 million for the year 2000, an increase of $3.5 million from 1999, most of which was related to commission income generated by Popular Insurance, incorporated in midyear 2000. Also contributing to the growth in other service fees from 1999 were higher check cashing fees by $2.5 million. This rise was mostly attributed to the expansion of the Corporation's retail financial services subsidiary in the United States, which added 30 new branches during the year to its existing network of stores and mobile units.

Other income in 2000 amounted to $109.1 million, representing an increase of $23.2 million, or 27.0%, from 1999. Other income increased mostly as the result of higher gains in the sale of loans and loans held for sale by approximately $4.8 million and to other revenues derived by GM Group, mainly associated with consulting services for new technology, sale of equipment and other engineering services. Also, contributing to the rise were the $8.8 million pretax gain realized on the sale of the credit card operations in the U.S. mainland and the $0.5 million gain on the sale of the Corporation's ownership interest in BF. Also, included in other income are higher fees generated by the Corporation's investment in Telecomunicaciones de Puerto Rico, Inc. (TELPRI) of $3.6 million.

As shown in Table E, in 1999, non-interest income, excluding securities and trading gains, increased $95.2 million or 34.2% from the $278.7 million reported in 1998. Service charges on deposit accounts grew $14.5 million or 13.9% over the amount reported in 1998, mostly as a result of higher volume of deposits due to the Corporation's growth and expansion and the offering of new deposit accounts. Also, the growth was related to increases in the volume of transactions with commercial accounts and revisions to the fee structure. Other service fees increased $53.2 million or 45.6% from 1998. Higher credit card fees and discounts led the rise, reflecting a higher portfolio level, increased fees and higher customer activity. Also, contributing to the growth from 1998 were higher check cashing fees driven by the expansion of the Corporation's retail financial subsidiary in the United States, higher processing fees associated to fees generated by GM Group and higher debit card fees from electronic transactions. In addition, fees related to the sale and administration of investment products reflected

growth mostly associated to the issuance of various mutual funds during the year. These rises were partially offset by lower credit life insurance fees. Other income, including gain

on sale of loans and loans held for sale, rose $27.6 million or 47.3% from 1998, partly due to fees resulting from the Corporation's investment in TELPRI and the acquisition of GM Group in 1999, and higher gains on the sale of mortgage and SBA loans.

Securities and Trading Gains/Losses

During 2000, the Corporation sold $819 million in investment securities available-for-sale. Gain on sale of securities amounted to $11.2 million, an increase of $10.6 million, compared with $0.6 million at the end of 1999. A $13.4 million gain was recognized in 2000 when the Corporation exercised its conversion right to exchange its investment in preferred stock of a financial corporation in Puerto Rico for common stock of the same entity. This gain was partially offset by net losses generated upon the sale of low-yielding securities. In 1999, $168 million in the investment securities available-for- sale were sold for a net gain of $0.6 million, compared with $923 million and $8.9 million, respectively, in 1998. Trading account activities for the year ended December 31, 2000, resulted in profits of $2.2 million compared with losses of $1.6 million in 1999 and profits of $3.7 million in 1998.

Operating Expenses

The Corporation's operating expenses for 2000 totaled $877.5 million, an increase of $40.0 million or 4.8%, compared to 1999. As a percentage of average assets, operating expenses decreased to 3.30% in 2000, compared with 3.52% in 1999 and 3.53% in 1998. The Corporation's efficiency ratio declined from 63.08% in 1999 to 61.57% in 2000. The decrease reflects both improved expense management and increased revenues for the year. Table F presents a detail of operating expenses and various related ratios for the last five years.

Personnel costs, the largest category of operating expenses, increased $7.5 million or 1.9%, over the amounts reported in prior year. The rise in personnel costs was led by a $16.5 million increase in salary expenses, which resulted mostly from annual merit increases and business expansion. Pension and other employee benefits, including profit sharing, amounted to $87.6 million for the year ended December 31, 2000, a decrease of $9.1 million or 9.4% from 1999. This decline was mostly attributed to lower pension and post-retirement benefit expenses and to a decrease in the profit sharing expense resulting from lower profitability ratios. There were 10,651 full-time equivalent employees (FTE's) at December 31, 2000, compared with 11,501 in 1999, representing a decrease of 850 employees. This reduction in headcount was mostly attributed to employees of Banco Fiduciario and the credit card operations in the U.S. These operations had approximately 766 and 121 FTE's, respectively, as of the end of 1999. The ratio of assets per employee rose to $2.63 million in 2000 from $2.21 million in 1999, while personnel costs as a percentage of average assets decreased to 1.48% from 1.62% in 1999.

Operating expenses, excluding personnel costs, totaled $483.3 million for the year ended December 31, 2000, an increase of $32.5 million or 7.2%, when compared with $450.8 million in 1999. Equipment and communication expenses grew a combined $12.2 million or 9.3% in 2000. The increase is partly attributed to the acquisition of GM Group in the second half of 1999 and higher expenses related to the depreciation of new equipment acquired throughout 1999 as part of the Y2K plan. Also, the rise is associated with the enhancement of the Corporation's electronic delivery capabilities, including its ATM's and POS networks, and the launching in the Internet of a redesigned web site that includes online banking services. Net occupancy expenses rose $6.9 million or 11.4% from 1999, largely reflecting increased depreciation and operating costs associated with the Corporation's growth and continued business expansion. Other operating expenses, which consist primarily of sundry losses, travelling expenses, interchange and processing expenses related to debit and credit cards, and FDIC assessments, among others, increased $10.9 million or 18.5% from 1999. Higher sundry losses, FDIC assessments, expenses related to foreclosed properties and higher interchange and processing expenses on credit and debit cards were the principal factors for the increase in other operating expenses. The amortization of intangibles also reflected an increase of $2.8 million related to premiums paid on the operations acquired during 2000 and the latter part of 1999. Partially offsetting these increases were lower professional fees, which decreased by $2.1 million or 3.0% from 1999.

In 1999, personnel costs amounted to $386.7 million. The increase of $49.3 million from 1998 to 1999, was mostly reflected in salaries, mainly due to increased employment levels, annual merit increases, incentive compensation and additional personnel hired for the Y2K project. Fringe benefits also rose mostly due to higher post-retirement health benefits, medical plan costs, and profit sharing expenses. These rises were partially offset by a decline in pension costs. Other operating expenses in 1999 were $450.8 million compared with $383.0

million in 1998. Almost all categories of operating expenses reflected rises. These increases were mostly to support the growth of the Corporation's business activity, geographical expansion and the impact of the operations acquired. These included occupancy expenses, equipment expenses, marketing efforts, consulting and technical support fees, and travelling costs, among others.

Income Tax Expense

Income tax expense for the year ended December 31,2000, was $100.8 million compared with $85.1 million in 1999. The increase in 2000 was primarily due to higher pretax earnings for the current year and lower benefits from net tax-exempt interest income.

The effective tax rate increased to 26.8% in 2000, from 25.0% in 1999 and 24.3% in 1998, mostly as a result of higher taxable income at the U.S. banking operations, associated to the gain on the sale of the credit card operations. This income is subject to a higher tax rate, which includes federal and state taxes. In addition, the disallowance of interest expense attributed to tax-exempt investments in Puerto Rico increased due to the higher cost of

funds. The difference between the effective tax rates and the maximum statutory tax rate for the Corporation, which is 39%, is primarily due to the interest income earned on certain investments and loans which is exempt from income tax, net of the disallowance of related expenses.

In 1998, income tax expense was $74.7 million and rose $10.4 million or 14.0% in 1999. The increase in 1999 was primarily due to higher pretax earnings and a lower reversal of $1.7 million of a valuation allowance related to a deferred tax asset that became realizable in 1999 as compared with $4.0 million realized in 1998. This increase was partially offset by higher benefits resulting from higher net tax-exempt interest income.

Please refer to Note 25 to the consolidated financial statements for additional information on income taxes.

Fourth Quarter Results

Net income reached $75.5 million or $0.54 per common share for the quarter ended December 31, 2000, compared with $65.7 million or $0.47 per common share for the same quarter in 1999. The results for the fourth quarter of 2000 represented an annualized return on assets of 1.09% and a return on common equity of 15.72%, compared with 1.05% and 15.06%, respectively, for the same period in 1999.

The Corporation's results of operations for the quarter ended December 31, 2000 reflected increases of $5.9 million in net interest income and $17.5 million in other revenues, when compared with the same quarter in 1999. Operating expenses reflected a reduction of $5.0 million compared with the same quarter in 1999. These favorable variances were partially offset by increases of $11.2 million in income taxes and $6.8 million in the provision for loan losses.

The growth in net interest income over the fourth quarter of 1999 was primarily due to an increase of $2.9 billion in average earning assets driven principally by a $1.6 billion increase in the average loan portfolio, mainly commercial and mortgage loans. The increase in the volume of earning assets was funded mainly through a higher average volume of borrowings and interest-bearing deposits. The net interest yield on a taxable equivalent basis for the quarter ended December 31, 2000, was 4.06%, compared with 4.55% for the fourth quarter of 1999. The reduction in the net interest yield resulted from an increase of 60 basis points in the average cost of interest bearing liabilities, mostly as a result of a higher interest rate scenario and a higher proportion of short-term borrowings, partially offset by an increase of seven basis points in the average yield on earning assets.

The provision for loan losses was $46.2 million, up $6.8 million or 17.2% from $39.4 million in the fourth quarter of 1999. The increase reflects the growth in the loan portfolio, and a rise in non-performing assets and net charge-offs. Net charge-offs were $50.9 million or 1.25% of average loans, compared with $36.0 million or 0.99% for the same period in 1999. The rise in net charge-offs was partially related to the adoption of the Revised Uniform Retail Credit Classification and Account Management Policy, which is further discussed in the Non-performing Assets section.

Non-interest income, including securities and trading gains, grew $17.5 million or 17.1%, reaching $119.4 million for the fourth quarter of 2000, compared with $101.9 million for the same period in 1999. The growth in non-interest income was led by an increase of $8.3 million in other service fees, $9.1 million in other operating income and $1.6 million in service charges on deposit accounts, partially offset by higher losses on sale of securities of $2.4 million. Higher debit card fees, processing income and insurance commissions led the growth in other service fees. Other income for the fourth quarter of 2000 included a $6.4 million pre-tax gain recognized upon the $190 million loan securitization performed by Equity One in the quarter, as well as a $3.8 million gain triggered by the sale of approximately $293 million in mortgage loans by BPPR.

Operating expenses for the fourth quarter of 2000 decreased $5.0 million or 2.3%, from $215.7 million in the fourth quarter of 1999. This decline was principally as a result of lower personnel costs by $4.3 million or 4.4% and professional fees by $3.1 million or 17.0%. Remaining combined categories of operating expenses rose $2.4 million or 2.4%, reflecting higher expenses largely in equipment, net occupancy and other general operating expense categories.

STATEMENT OF CONDITION ANALYSIS

The Corporation's total assets as of December 31, 2000 reached $28.1 billion, representing an increase of $2.6

billion, compared with $25.5 billion a year earlier. Total assets amounted to $23.2 billion in 1998. Despite the sale of BF and the credit card operations in the United States, the Corporation experienced a 10.2% increase in assets since December 31, 1999, mostly due to the Corporation's business growth, attributed principally to its banking operations in Puerto Rico. Total assets of BF and the U.S. credit card operations were $436 million and $153 million, respectively, at December 31, 1999.

Earning Assets

The Corporation's earning assets reached $26.3 billion at December 31, 2000, compared with $23.8 billion at December 31, 1999 and $21.6 billion at the same date in 1998.

Money market investments, investment and trading securities amounted to $10.3 billion at December 31, 2000, representing an increase of $1.5 billion when compared with $8.8 billion at December 31, 1999. The increase was mainly reflected in investment securities, which totaled $9.1 billion at December 31, 2000, or $1.5 billion and 18.8% higher than the $7.6 billion at December 31, 1999. The growth was mostly attributed to investment opportunities undertaken during the year, mostly related to U.S. agency securities, which are tax-exempt in Puerto Rico.

The Corporation continued to experience loan growth during 2000. Total loans increased $1.1 billion or 7.7% from amounts reported in 1999. As derived from Table G, mortgage and commercial loans,

Table G
Loans Ending Balances

(Dollars in thousands)	As of December 31, 2000	1999	1998	1997	199
Commercial, industrial and agricultural	$ 7,013,834	$ 6,656,411	$ 5,646,027	$ 4,637,409	$ 3,82
Construction	258,197	247,288	257,786	250,111	20
Lease financing	816,714	728,644	645,280	581,927	51
Mortgage(*)	4,643,646	3,933,663	3,351,748	2,833,896	2,57
Consumer(*)	3,324,694	3,341,748	3,177,954	3,073,264	2,66
Total	$ 16,057,085	$ 14,907,754	$ 13,078,795	$ 11,376,607	$ 9,77

(*)Includes loans held-for-sale.

including construction loans, accounted for the largest increases in the portfolio, rising $710 million and $368 million, respectively from the amounts reported as of December 31, 1999. This growth was achieved despite various asset sale transactions, which took place during the year, including the sale of BF which had $290 million in loans at the end of 1999, and sale transactions involving mortgage loans, which are described below.

The rise in the mortgage loan portfolio of $710 million or 18.0% since 1999 was the result of higher loan originations and aggressive marketing efforts. These loans increased even when the Corporation performed a mortgage loan securitization of $190 million at Equity One and a sale of mortgage loans of approximately $293 million at BPPR during last quarter of 2000.

The commercial loan portfolio, including construction loans, was $7.3 billion at December 31, 2000, an increase of 5.3% compared to 1999. The growth in the commercial loan portfolio resulted principally from the continued marketing efforts directed to the retail and middle market, the sustained growth in Puerto Rico and the expansion in the United States. This increase was partially offset by the sale of BF, which had $236 million in commercial loans as of December 31, 1999. BPNA reflected a healthy growth, comprising 65.9% of the Corporation's total loan growth. The rise at this banking institution was mostly in the form of medallion, other SBA and franchise loans, among others.

Consumer loans, which include personal, auto and boat, credit cards and reserve lines, decreased $17 million since December 31, 1999 mainly resulting from the sale of the U.S. credit card portfolio during the third quarter of 2000. The latter totaled $156 million at December 31, 1999.

Personal loans, the largest category of consumer loans, represented 51.6% of the consumer loan portfolio, a slight increase of $15.7 million or 0.9% from the end of 1999. Credit card loans, which represented 22.8% of the consumer loan portfolio as of December 31, 2000, decreased $109 million, mainly due to the aforementioned sale of the U.S. credit card portfolio. In Puerto Rico, the credit card portfolio increased by $61.9 million mostly related to American Express. Auto and boat secured loans represented about 20.6% of the total consumer loan portfolio, while other revolving credit represented 5.0% at December 31, 2000. These two categories combined increased $76.5 million. This increase was mostly achieved through business expansion and marketing efforts both in Puerto Rico and the United States.

The Corporation's lease financing portfolio increased $88.1 million or 12.1% from 1999. This rise was mostly associated to lease financing portfolios acquired during the year from a local financial institution in Puerto Rico of $66.8 million at date of acquisition. In addition, the Corporation's leasing subsidiary in the United States, engaged in equipment leasing, contributed with $7.6 million of the increase.

Deposits, other interest bearing liabilities and minority interest Total deposits at December 31, 2000 amounted to $14.8 billion compared with $14.2 billion at December 31, 1999, an increase of $631 million or 4.5%. The moderate growth in deposits reflects increased competition for consumer deposits and heightened consumer sensitivity to interest rates. Interest bearing deposits increased $806 million or 7.4%, mostly in certificates of

deposit. Non-interest bearing deposits decreased $175 million or 5.3% from 1999. The growth in deposits was partially affected by the sale of BF, which had $295 million in total deposits as of the end of 1999. Refer to Table L for a detail of average deposits by category. The geographic distribution of the Corporation's total deposits at the end of 2000, included 67.4% in Puerto Rico, 27.7% in the United States and the remaining 4.9% in the Caribbean region, including deposits from BPPR's operations in the U.S. and British Virgin Islands.

The increase in deposits was mainly reflected in brokered CD's and other time deposits, which rose $304 million or 197% and $289 million or 5.8%, respectively, from amounts reported in 1999. Brokered CD's consist of certificate of deposits purchased from a broker acting as an agent for depositors and usually have a higher interest rate than regular CD's. The increase in time deposits was mostly experienced in retail deposits, resulting from the

Table H
Capital Adequacy Data

(Dollars in thousands)	As of December 31, 2000	1999	1998	199
Risk-based capital:				
Tier I capital	$ 1,741,004	$ 1,557,096	$ 1,450,187	$ 1,3
Supplementary (Tier II) capital	321,627	324,519	310,091	2
Total capital	$ 2,062,631	$ 1,881,615	$ 1,760,278	$ 1,5
Risk-weighted assets:				
Balance sheet items	$ 16,173,005	$ 14,878,731	$ 12,955,995	$ 10,6
Off-balance sheet items	496,735	428,780	443,926	2
Total risk-weighted assets	$ 16,669,740	$ 15,307,511	$ 13,399,921	$ 10,9
Ratios:				
Tier I capital (minimum required - 4.00%)	10.44%	10.17%	10.82%	
Total capital (minimum required - 8.00%)	12.37	12.29	13.14	
Leverage ratio (minimum required - 3.00%)	6.40	6.40	6.72	
Equity to assets	7.09	7.19	7.60	
Tangible equity to assets	6.06	6.09	6.50	
Equity to loans	11.93	12.32	13.02	
Internal capital generation rate	9.59	9.80	10.06	

Corporation's marketing efforts. In addition, savings, NOW and money market accounts had an increase of $208 million or 3.6% from 1999. On the other hand, demand deposits had a decrease of $175 million or 5.3% compared with amounts reported as of December 31, 1999. This decrease is mostly attributable to a reduction in the funds held in trust for the benefit of third parties.

During 2000, an increased reliance was placed on borrowed funds to support earning asset growth. Borrowed funds, including subordinated notes and capital securities, increased $1.6 billion or 17.8%, from $9.2 billion on December 31, 1999 to $10.8 billion at the end of 2000. Most of the increase in borrowed funds was obtained through short-term funding sources. The increase in funds was mostly in the form of federal funds and advances under revolving lines of credit.

As part of the investment in subsidiaries, the Corporation recognized a minority interest, amounting to $0.9 million as of December 31, 2000, which mostly represented the beneficial interest of the minority investors of Levitt Mortgage. As of December 31, 1999, this minority interest totaled $23 million. The decrease from the end of 1999 was mainly attributed to the aforementioned sale of BF.

Stockholders' Equity

The Corporation's stockholder's equity at December 31, 2000 was $1.99 billion compared with $1.66 billion at the end of 1999. Besides the increase in retained earnings, stockholder's equity also rose as a result of an increase of $144 million in accumulated other comprehensive income. The latter included $4 million in unrealized gains on securities available-for-sale, net of deferred taxes, as of December 31, 2000, compared with $139 million in unrealized losses, net of deferred taxes, in prior year. During 2000 the Corporation repurchased a total of 104,878 shares of its common stock at a cost of $2.1 million.

Dividends declared on common stock during 2000 totaled $87.0 million, compared with $81.4 million in 1999. Total dividends declared per common share for 2000 were $0.64 compared with $0.60 in 1999. The dividend payout ratio to common stockholders for the year was 32.47% compared with 31.56% in 1999.

The Corporation has a Dividend Reinvestment Plan for its stockholders. This plan offers the stockholders the opportunity to automatically reinvest their dividends in shares of common stock at a 5% discount from the average market price at the time of issuance. During 2000, a total of 449,203 shares, equivalent to $9.8 million in additional capital, were issued under the plan. In 1999, 328,693 shares representing $9.4 million in additional

capital were issued under this plan.

The Corporation had 4 million shares of preferred stock outstanding at December 31, 2000. These shares are non-convertible and are redeemable at the option of the Corporation. Dividends are non-cumulative and are payable monthly at an annual rate per share. Dividends declared on the Corporation's preferred stock amounted to $8.3 million in 2000 and 1999 of 8.35% based on the liquidation preference value of $25 per share.

As shown in Table H, which presents the Corporation's capital adequacy information for the current and previous four years, the Corporation continues to exceed the well-capitalized guidelines under the federal banking regulations. Further information is also presented in Note 19 to the consolidated financial statements.

Table I
Common Stock Performance

	Market Price High	Market Price Low	Cash Dividends Declared Per Share	Book Value Per Share	Dividend Payout Ratio	Dividend Yield (*)	Pric Earni Rati
2000				$13.92	32.47%	2.75%	13.3
4TH QUARTER	$27 7/8	$23 1/2	$ 0.16				
3RD QUARTER	27 1/16	19 5/8	0.16				
2ND QUARTER	23 9/16	19 1/16	0.16				
1ST QUARTER	26 7/8	18 5/8	0.16				
1999				11.51	31.56	1.90	15.
4th quarter	$32	$25 7/16	$ 0.16				
3rd quarter	31	25 13/16	0.16				
2nd quarter	32 7/8	28 13/16	0.14				
1st quarter	37 7/8	30 7/8	0.14				
1998				11.86	28.42	1.55	20.
4th quarter	$34	$25 3/8	$ 0.14				
3rd quarter	36 3/4	28	0.14				
2nd quarter	36 5/32	29 7/32	0.11				
1st quarter	29 11/32	23 1/32	0.11				
1997				10.37	25.19	1.76	16.
4th quarter	$27 3/16	$22 7/8	$ 0.11				
3rd quarter	27 15/16	20 9/16	0.11				
2nd quarter	21 7/16	16 7/8	0.09				
1st quarter	18 3/8	16 17/32	0.09				
1996				8.80	24.63	2.65	12.
4th quarter	$17 1/2	$12 15/16	$ 0.09				
3rd quarter	13 7/8	11 5/16	0.09				
2nd quarter	11 13/14	10 15/16	0.09				
1st quarter	11 9/16	9 11/16	0.08				

(*) Based on the average high and low market price for the four quarters.
Note: All per share data has been adjusted to reflect the two stock splits effected in the form of a dividend of one share for each share outstanding on July 1, 1998 and July 1, 1996.

Intangible assets totaled $282 million at December 31, 2000, a decrease of $23 million from $305 million at December 31, 1999. This decrease is mainly due to the amortization of intangibles in the normal course of business and to the exclusion of the intangible assets of BF, which amounted to $10 million as of December 31, 1999. Total intangibles consisted of $194 million in goodwill, $46 million in core deposit intangibles, $39 million in mortgage servicing rights and $3 million in other intangibles. At the end of 1999 goodwill totaled $215 million, core deposit intangibles were $52 million, mortgage-servicing rights were $32 million and other intangibles were $6 million. The average tangible equity increased to $1.59 billion for the year ended December 31, 2000, from $1.43 billion a year before, an increase of $160 million or 11.1%. Total tangible equity at December 31, 2000 was $1.71 billion compared with $1.36 billion at December 31, 1999. The tangible equity to assets ratio for 2000 was 6.06% compared with 6.09 % in 1999.

Book value per common share was $13.92 at December 31, 2000 compared with $11.51 at year-end 1999. The market value of the Corporation's common stock at the end of 2000 was $26.31 compared with $27.94 a year earlier. The total market capitalization was $3.6 billion as of December 31, 2000 compared with $3.8 billion as of the same date in the previous year.

The Corporation's stock is traded on the National Association of Securities Dealers Automated Quotation (NASDAQ) National Market System under the symbol BPOP. Table I shows the range of market quotations

and cash dividends declared for each quarter during the last five years. The preferred stock of the Corporation is also traded on the NASDAQ National Market System under the symbol BPOPP. Its market value at December 31, 2000 and 1999 was $25.50 and $25.38 per share, respectively. As of February 28, 2001 the Corporation had 9,061 stockholders of record of its

common stock, not including beneficial owners whose shares are held in record names of brokers or other nominees.

Risk Management

A Risk Management Committee composed of members of the Board of Directors of the Corporation monitors and approves policies and procedures and evaluates the Corporation's activities affected by credit, market, operational, legal, liquidity, reputation and strategic risks.

The Corporation has specific policies and procedures which structure and delineate the management of risks, particularly those related with interest rate exposure, liquidity and credit, all of which are discussed below.

Market Risk

Market risk refers to the impact of changes in interest rates on the Corporation's net interest income, market value of portfolio equity and trading operations. It also arises from fluctuations in the value of some foreign currencies against the U.S. dollar. Despite the varied nature of market risks, the primary source of market risk at the Corporation is the impact of changes in interest rates.

The stability and level of the Corporation's net interest income, as well as its market value of equity, are subject to interest rate volatility. Changes in interest rates affect both the rates at which the Corporation's assets and liabilities reprice throughout time, and the market values of most of its assets and liabilities. Since net interest income is the main source of earnings of the Corporation, the constant measurement and control of market risk is a major priority.

The Corporation's Board of Directors (the Board) is responsible for establishing policies regarding the assumption and management of market risk, and delegates their implementation to the Market Risk Committee (the Committee) of Popular Inc. The Committee's primary goal is to ensure that the market risk assumed by the Corporation remains within the parameters of the Board policies.

Interest rate risk

Interest rate risk (IRR) refers to the impact of changes in interest rates on the Corporation's net interest income. Depending on the duration and repricing characteristics of the Corporation's assets, liabilities and off-balance sheet items, changes in interest rates could either increase or decrease the level of net interest income.

The Committee implements the market risks policies approved by the Board as well as risk management strategies reviewed and adopted in Committee meetings. The Committee measures and monitors the level of short and long-term IRR assumed at the Corporation and its subsidiaries. It uses simulation analysis and static gap estimates for measuring short-term IRR. Duration analysis is used to quantify the level of long-term IRR assumed, and focuses on the estimated economic value of the Corporation, that is, the difference between the estimated market value of financial assets less the estimated value of financial liabilities.

Static gap analysis measures the volume of assets and liabilities at a point in time and their repricing during future time periods. The repricing volumes typically include adjustments for anticipated future asset prepayments, and for differences in sensitivity to market rates. The volume of net assets or liabilities repricing during future periods, particularly within one year, is used as one short-term indicator of IRR. Table J presents the static gap estimate for the Corporation as of December 31, 2000. These static measurements do not reflect the results of any projected activity and are best used as early indicators of potential interest rate exposures.

Simulation analysis is another measurement used by the Corporation for short-term IRR, and it addresses some of the deficiencies of gap analysis. It involves estimating the effect on net interest income of one or more future interest rate scenarios as applied to the repricing of the Corporation's current assets and liabilities and the assumption of new balances. The simulation analyses reviewed in the Committee are based on various interest rate scenarios, and include assumptions made related to the prepayment of the Corporation's amortizing loans and securities, and the sensitivity of the Corporation's cost of retail deposits to changes in market rates. The computations do not contemplate actions management could take to respond to changes in interest rates. Computations of the prospective effects of hypothetical interest rate changes should not be relied upon as

indicative of actual results. By their nature, these forward-looking statements are only estimates and may be different from what actually occurs in the future. As of December 31, 2000, the difference in projected net interest income under a rising and declining rate scenario, which assumes interest rates change by 150 basis points up and down, within a twelve-month period, was a decrease of $1.1 million and an increase of $0.9 million, respectively, which represented changes of 0.1% and 0.08% in net interest income. These estimated changes are within the policy guidelines established by the Board.

Duration analysis measures longer-term IRR, in particular the duration of market value of equity. It expresses in general terms the sensitivity of the market value of equity to changes in interest rates. The estimated market value of equity is obtained from the market values of the cash flows from the Corporation's financial assets and liabilities, which are primarily payments of interest and repayments of principal. Thus, the market value of equity incorporates most future cash flows from net interest income, whereas other measures of IRR focus primarily on short-term net interest income. As of December 31, 2000, the estimated duration of the market value of equity of the Corporation was 6.25 years compared with 5.3 years as of the same date a year earlier.

Duration measures the average length of a financial asset or liability. In particular it equals the weighted average maturity of all the cash flows of a financial asset or liability where the weights are equal to the present value of each cash flow. The present value of cash flows occurring in the future is its estimated market value as of a certain date. The sensitivity of the market value of a financial asset or liability to changes in interest rates is primarily a function of its duration. In general terms, the longer the duration of an asset or liability is, the greater is the

Table J

Interest Rate Sensitivity

(Dollars in thousands)	0-30 days	Within 31-90 days	After three months but within six months	six but nin
	As of December 31, 2000 — By Repricing Dates			
Assets:				
Money market investments	$ 137,244	$ 797,342	$ 133,100	
Investment and trading securities	1,487,551	1,534,937	492,489	$ 2
Loans	5,011,008	683,511	801,100	5
Other assets				
Total	6,635,803	3,015,790	1,426,689	8
Liabilities and stockholders' equity:				
Savings, NOW and money market accounts	675,362			
Other time deposits	1,256,964	923,820	1,139,830	5
Federal funds purchased and securities sold under agreements to repurchase	3,357,716	1,294,830	191,569	
Other short-term borrowings	1,675,164	1,514,897	391,668	4
Notes payable	50,000	210,000		
Subordinated notes and capital securities				
Non-interest bearing deposits				
Other non-interest bearing liabilities				
Stockholders' equity				
Total	$ 7,015,206	$ 3,943,547	$ 1,723,067	$ 9
Off-balance sheet financial instruments	20,000		15,000	
Interest rate sensitive gap	(359,403)	(927,757)	(281,378)	(1
Cumulative interest rate sensitive gap	(359,403)	(1,287,160)	(1,568,538)	(1,7
Cumulative sensitive gap to earning assets	(1.36)%	(4.89)%	(5.96)%	

	After one year	Non-interest bearing funds	Total
Assets:			
Money market investments	$ 932		$ 1,068,618
Investment and trading securities	4,785,543		9,213,728
Loans	8,428,681		16,057,085
Other assets		$1,717,620	$1,717,620
Total	13,215,156	1,717,620	28,057,051
Liabilities and stockholders' equity:			
Savings, NOW and money market accounts	5,277,530		5,952,892
Other time deposits	1,438,399		5,742,130
Federal funds purchased and securities sold under agreements to repurchase	120,000		4,964,115
Other short-term borrowings			4,369,212
Notes payable	916,912		1,176,912
Subordinated notes and capital securities	275,000		275,000
Non-interest bearing deposits		3,109,885	3,109,885
Other non-interest bearing liabilities		473,261	473,261
Stockholders' equity		1,993,644	1,993,644
Total	$ 8,027,841	$5,576,790	$28,057,051
Off-balance sheet financial instruments	(35,000)		
Interest rate sensitive gap	5,152,315		
Cumulative interest rate sensitive gap	3,859,170		
Cumulative sensitive gap to earning assets	14.65%		

sensitivity of its market value to interest rate changes. Since duration measures the length of a financial asset or liability, it is usually expressed in terms of years or months.

Derivatives are used, to a limited extent, by the Corporation with the primary objective of controlling exposures to market risk. The primary instruments used included exchange-traded futures contracts and interest rate swaps. Financial futures are used primarily for hedging the cost of future debt issuance as well as protecting the value of assets from market risk. Interest rate swaps are used primarily to hedge the risk of certificates of deposits by the Corporation to retail customers, whose return is based on an equity index. Please refer to Note 28 to the consolidated financial statements for further information on the Corporation's derivative transactions.

Trading

The Corporation's trading activities are another source of market risk. These are mostly related to its mortgage banking and broker/dealer activities in Puerto Rico. The Corporation assumes positions in financial instruments, including futures and options, in the course of these activities that are carried at market value. Interest revenue and expense arising from trading securities are included in the income statement as part of net interest income and not included in trading profits or losses.

In the opinion of management, the size and composition of the trading portfolio does not represent a potentially significant source of market risk for the Corporation. It consists primarily of securities issued by Puerto Rico-based entities for resale to retail customers and mortgage-backed securities in the process of being sold in the

TABLE K
Maturity Distribution of Earning Assets

	As of December 31, 2000				
	Maturities				
		After one year through five years		After five y	
(In thousands)	One year or less	Fixed interest rates	Variable interest rates	Fixed interest rates	
Money market securities	$1,067,661	$ 932	$ 25	--	
Investment and trading securities	2,302,195	2,796,822	377,745	$2,702,224	$
Loans:					
Commercial	2,281,076	1,710,977	738,588	1,300,020	
Construction	36,502	11,051	5,513	14,948	
Lease financing	228,134	577,465	--	11,115	
Mortgage	1,023,039	1,703,416	242,536	1,367,546	
Consumer	1,060,894	1,437,211	--	826,589	
Total	$7,999,501	$8,237,874	$1,364,407	$6,222,442	$2

Note: Federal Reserve Bank stock, Federal Home Loan Bank stock, and other equity securities held by the Corporation are not included in this table.

secondary markets. The Committee utilizes several approaches for measuring its risk, including duration and value at risk.

As of December 31, 2000 the trading portfolio of the Corporation amounted to $153 million and represented 0.5% of total assets, compared with $237 million and 0.9% a year earlier. This portfolio was composed of the following as of December 31, 2000:

(Dollars in thousands)	Amount	Weighted Average Yield
Mortgage-backed securities	$ 20,546	7.42%
Commercial paper	104,375	6.80
U.S. Treasury and agencies	14,205	6.66
Puerto Rico Government obligations	4,588	6.85
Other	9,359	7.00
	$153,073	6.88%

As of December 31, 2000, the trading portfolio of the Corporation had an estimated duration of 1.05 years and a one-month value at risk of $0.6 million, assuming a confidence level of 95%.

Foreign Exchange

In the ordinary course of business, the Corporation occasionally enters into foreign exchange transactions. These transactions are executed as an intermediary primarily for its retail and commercial clients. Any risk assumed by these transactions is immediately offset in the foreign exchange markets. Management therefore believes that the market risk assumed by the Corporation in its foreign currency transactions is not significant. The Corporation conducts business in the Latin American markets through several of its processing and information technology services and products subsidiaries. Although not significant, some of these businesses are conducted in the country's particular foreign currency. However, management does not expect future exchange volatility between the U.S. dollar and the particular foreign currency to affect significantly the value of the Corporation's investment in these subsidiaries.

Liquidity Risk

Liquidity refers to the ability to fund current operations, including the cash flow requirements of depositors and borrowers as well as future growth. The Corporation utilizes various sources of funding to help ensure that adequate levels of liquidity are always available. Diversification of funding sources is a major priority, as it helps protect the liquidity of the Corporation from market disruptions. Since the duration and repricing characteristics of the Corporation's borrowings determine to a major extent the overall interest rate risk of the Corporation, they are actively managed.

The Corporation raises its funding from a combination of retail and wholesale markets. Retail sources of funds include individual and corporate depositors in the markets where the Corporation competes. These are the primary sources of funds for the Corporation and are usually more stable than financing from institutional sources. This stability is enhanced by the Corporation's market share participation in its primary markets. The Corporation has also established borrowing relationships with the FHLB and other correspondent banks, which further support and enhance liquidity. Wholesale or institutional sources of funds comprise primarily other financial intermediaries such as commercial banks, securities

Table L
Average Total Deposits

(Dollars in thousands)	For the Year 2000	1999	1998	1997	
Demand	$ 3,030,307	$ 3,032,001	$ 2,607,525	$ 2,289,300	$
Other non-interest bearing accounts	4,976	6,881	4,251	4,367	
Non-interest bearing	3,035,283	3,038,882	2,611,776	2,293,667	
Savings accounts	4,113,338	4,132,397	3,761,160	3,393,279	
NOW and money market accounts	1,811,352	1,745,579	1,459,972	1,281,298	
Savings deposits	5,924,690	5,877,976	5,221,132	4,674,577	4
Certificates of deposit:					
Under $100,000	2,507,702	2,664,174	2,155,391	1,216,583	
$100,000 and over	2,646,312	1,601,861	1,421,456	1,865,720	
936	259,203	297,122	369,530	508,789	
Certificates of deposit	5,413,217	4,563,157	3,946,377	3,591,092	
Other time deposits	135,292	311,323	490,816	432,221	
Interest bearing	11,473,199	10,752,456	9,658,325	8,697,890	
Total	$14,508,482	$13,791,338	$12,270,101	$10,991,557	$1

dealers, investment companies, insurance companies, as well as non-financial corporations.

Deposits tend to be less volatile than institutional borrowings and their cost is less sensitive to changes in market rates. The extensive branch network of the Corporation in the Puerto Rico market and its rapidly expanding network in major U.S. markets, have enabled it to maintain a significant and stable base of deposits. Deposits are the primary source of funding, although wholesale borrowings are an increasingly important source. At December 31, 2000, the Corporation's core deposits amounted to $12.2 billion or 82.3% of total deposits, an increase of $400 million or 3.4% from the same date a year ago. Certificates of deposits with denominations of $100,000 and over as of December 31, 2000 totaled $2.6 billion, or 17.7% of total deposits. Their distribution by maturity was as follows:

(In thousands)	
3 months or less	$ 1,323,526
3 to 6 months	441,992
6 to 12 months	371,983
over 12 months	489,042
	$ 2,626,543

For further detail on average deposits for the last five years, please refer to Table L. Wholesale or institutional sources of funding includes the repos, federal funds and Eurodollar markets, commercial paper, senior debentures and asset securitizations. Notes 10 through 16 to the consolidated financial statements present details of the Corporation's deposits and borrowings by type, as of December 31, 2000 and 1999.

Another important liquidity source of the Corporation is its assets, particularly the investment portfolio. This portfolio consists primarily of liquid U.S. Treasury and Agency securities that can be used to raise funds in the repo markets. As of December 31, 2000, the entire investment portfolio, excluding trading securities, totaled $9.1 billion, of which, $2.1 billion or 23.7% has an expected maturity of one year or less. Also, refer to Notes 4 and 5 to the consolidated financial statements for further information on the composition of the available-for-sale and held-to-maturity investment portfolios.

The Corporation's loan portfolio is another important source of liquidity since it generates substantial cash flow resulting from principal and interest payments and principal prepayments. The loan portfolio can also be used to obtain funding in the capital markets. In particular, mortgage loans and some types of consumer loans and to lesser extent commercial loans, have highly developed secondary markets, which the Corporation uses on a regular basis. Table K presents a maturity distribution of the loan portfolio as of December 31, 2000. As of that date $4.6 billion or 28.8% of the loan portfolio is expected to mature within one year.

Credit Risk Management and Loan Quality

In conducting business activities, the Corporation is exposed to the possibility that borrowers or counterparties may default on their credit obligations to the Corporation. The Corporation's credit exposure is centered in its loan portfolio, which at December 31, 2000 totaled $16.1 billion, or 61.0% of its earning assets. For other risks associated with off-balance sheet lending activities, please refer to Note 26 to the consolidated financial statements.

Popular, Inc. manages credit risk by maintaining sound underwriting standards, monitoring and evaluating the quality of the loan portfolio, its trends and collectibility, assessing reserves and loan concentrations, recruiting qualified credit officers, implementing and monitoring lending policies and collateral requirements, and instituting procedures to ensure appropriate actions to comply with laws and regulations. Included in the policies, primarily determined by the amount and type of loan, are various approval levels. The Corporation receives collateral to support credit extensions and commitments, whenever it is considered necessary. Generally, such collateral is in the form of real and personal property, cash on deposit or other highly liquid instruments.

The Corporation has a Credit Strategy Committee (CRESCO) that oversees all credit-related activities. This Committee is responsible for managing the Corporation's overall credit exposure and for developing credit policies, standards and guidelines that define, quantify, and monitor credit risk. Through the CRESCO, senior management reviews asset quality ratios, trends and forecasts, the methodology for assessing the adequacy of the reserve for loan losses, problem loans, and establishes the provision for loan losses.

Also, the Corporation has an independent Credit Risk Management Division (CRDM). This division is centralized and independent of the lending function. It manages the credit rating system and tests the adequacy of the allowance for loan losses in accordance with generally accepted accounting principles (GAAP) and regulatory standards. The CRDM manages and controls the Corporation's credit risk utilizing various techniques through the different stages of the credit process. Specialized workout officers, independent from the originating unit, handle substantially all commercial loans which are past due over 90 days, have filed bankruptcy, or based on their risk profile are considered problem loans. A CRDM representative who oversees the adherence to policies and procedures established for the initial underwriting of the credit portfolio is a permanent non-voting member of the Executive Credit Committee.

The Corporation also has an independent Credit Process Review Group within the CRDM which performs annual comprehensive credit process reviews of several middle market, construction and corporate banking lending groups, as well as reviews the work performed by outside loan review firms providing services to the Corporation in the U.S. mainland. This group examines the risk profile of each originating unit along with each unit's credit administration effectiveness, the quality of the credit and collateral documentation, its regulatory compliance and the adequacy of its staffing levels and competency. Furthermore, the Corporation continues emphasizing the development of the credit staff skills and knowledge and improving the processing technology.

Also, in the minimization of credit risk, the Corporation strives to maintain a credit risk profile that is diverse in terms of product type, industry concentration, geographic distribution and borrower or counterparty concentration.

The Corporation's credit risk exposure is spread among individual consumers, small commercial loans and a diverse base of borrowers engaged in a wide variety of businesses. The Corporation has over 816,000 consumer loans and over 40,000 commercial lending relationships. Only 80 of these relationships have loans outstanding over $10 million. Highly leveraged transactions and credit facilities to finance speculative real estate ventures are minimal and there are no LDC loans. The Corporation limits its exposure to concentrations of credit risk by the nature of its lending limits as approximately 26.7% of total commercial and construction loans outstanding are secured by real estate or cash collateral. In addition, the secured consumer loan portfolio was $1.2 billion or 34.9% of the total consumer portfolio at December 31, 2000. Furthermore, there are no significant concentrations in any one industry with a substantial portion of the customers having credit needs of less than $250,000.

The Corporation also manages exposure to a single borrower, industry or product type through participations, loan sales and securitizations. Moreover, on a quarterly basis, the Corporation's CRMD, senior management and the Risk Management Committee evaluate possible industry risk concentrations.

The Corporation does conduct business in a geographically concentrated area as its main market continues to be Puerto Rico. However, the Corporation continues its efforts to diversify its geographic risk as a result of its expansion strategy throughout various markets in the United States and the Caribbean. Puerto Rico's share of the total loan portfolio has decreased from 64.4% in 1997 to 58.4% in 2000. The Corporation's asset and revenue composition by geographical area and by business line segments is further presented in Note 30 to the consolidated financial statements. Puerto Rico's economic outlook is generally similar to that of the mainland and its Government and its instrumentalities are all investment-grade rated borrowers in the United States capital

markets.

Moreover, the Corporation is exposed to government risk. A total of $67 million of residential mortgages and $397 million in commercial loans were insured or guaranteed by the U.S. Government or its agencies at December 31, 2000. The Corporation continues to be one of the largest SBA lenders in the United States. Furthermore, there were $71 million of loans issued to or guaranteed by Puerto Rico Government and political subdivisions and $45 million of loans issued to or guaranteed by the U.S. Virgin Islands' Government.

Non-Performing Assets

Non-performing assets consist of past-due loans that are no longer accruing interest, renegotiated loans and real estate acquired through foreclosure. A summary of non-performing assets by loan categories and related ratios are presented in Table M.

The Corporation's policy is to place commercial loans on non-accrual status if payments of principal or interest are delinquent 60 days rather than the standard industry practice of 90 days. Financing leases, conventional mortgages and close-end consumer loans are placed on non-accrual status if payments are delinquent 90 days.

Table M
Non-Performing Assets

(Dollars in thousands)	2000	1999	1998	1997
	As of December 31,			
Commercial, industrial and agricultural	$169,535	$163,968	$142,371	$106,982
Construction	2,867	1,504	144	2,704
Lease financing	7,152	3,820	4,937	1,569
Mortgage	99,861	70,038	68,527	53,449
Consumer	43,814	57,515	46,626	30,840
Renegotiated accruing loans			578	
Other real estate	23,518	29,268	32,693	18,012
Total	$346,747	$326,113	$295,876	$213,556
Accruing loans past-due 90 days or more	$ 21,599	$ 28,731	$ 24,426	$ 20,967
Non-performing assets to loans	2.16%	2.19%	2.26%	1.88%
Non-performing loans to loans	2.01	1.99	2.01	1.72
Non-performing assets to assets	1.24	1.28	1.28	1.11
Interest lost	$ 23,129	$ 20,428	$ 15,258	$ 11,868

Note: The Corporation's policy is to place commercial and construction loans on non-accrual status if payments of principal or interest are past-due 60 days or more. Lease financing receivables and conventional residential mortgage loans are placed on non-accrual status if payments are delinquent 90 days or more. Close-end consumer loans are placed on non-accrual when they become 90 days or more past-due and are charged-off when they are 120 days past-due. Open-end consumer loans are not placed on non-accrual status and are charged-off when they are 180 days past-due. Loans past-due 90 days or more and still accruing are not considered as non-performing loans.

Closed-end consumer loans are charged-off when payments are delinquent 120 days. Open-end (revolving credit) consumer loans are charged-off if payments are delinquent 180 days. Certain loans which would be treated as non-accrual loans pursuant to the foregoing policy, are treated as accruing loans if they are considered well-secured and in the process of collection. Under the standard industry practice, close-end consumer loans are charged-off when delinquent 120 days, but are not customarily placed on non-accrual status prior to being charged-off.

On February 10, 1999, the Federal Financial Institutions Examination Council (FFIEC) issued a revised Uniform Retail Credit Classification and Account Management Policy. This policy statement updates and expands the classification policy for retail credit loans. The policy, among other things, requires that unsecured retail loans to borrowers who declare bankruptcy be charged-off within 60 days of receipt of notification of filing from the bankruptcy court, or within the charge-off time frames adopted in the classification policy, whichever is shorter. Also, the revised policy details criteria that should be met before banks may consider a delinquent open-end loan current, such as in the process of account re-aging, extension and deferral. Changes in the policies and practices were effective on December 31, 2000.

Non-performing assets amounted to $346.7 million or 2.16% of loans as of December 31, 2000, compared with $326.1 million or 2.19% in 1999. The allowance for loan losses as a percentage of non-performing assets, as of December 31, 2000 and 1999, was 83.82% and 89.54%, respectively.

Non-performing commercial loans, including construction loans, increased by $6.9 million since December 31, 1999. They represented 2.37% of the commercial and construction loan portfolio at December 31, 2000 compared with 2.40% in 1999. This rise resulted notwithstanding the impact of the sale of BF, whose non-performing commercial loans amounted to $45.5 million as of the end of 1999. The overall increase since December 31, 1999 corresponded principally to the growth in the Corporation's loan portfolio. Also, deteriorating economic conditions, resulting from a higher interest rate scenario and higher energy prices, negatively impacted some of the Corporation's customer margins and cash flows.

Non-performing financing leases amounted to $7.2 million or 0.88% of leases at December 31, 2000, compared with $3.8 million or 0.52% in 1999. Moreover, non-performing mortgage loans reflected a rise of $29.8 million since December 31, 1999, mostly as a result of the growth in the mortgage loan portfolio and higher delinquency levels in this loan category. Non-performing mortgage loans were 2.15% of mortgage loans for 2000, compared with 1.78% in 1999.

Non-performing consumer loans totaled $43.8 million or 1.32% of consumer loans at December 31, 2000, compared with $57.5 million or 1.72% of consumer loans at the same date in 1999. This monetary decline was mainly due to the sale of the Corporation's ownership interest in BF, which had $10.5 million in non-performing consumer loans as of the end of 1999. Also, the Corporation's banking operations reflected lower non-performing consumer loans mostly as a result of the acceleration of charge-offs to comply with

the new policy dictated by the FFIEC, and to the current credit environment, which has prompted the Corporation to tighten its credit criteria for unsecured consumer borrowings and to set objective standards to price loans according to risk levels.

The net increase in non-performing loans was partly offset by lower balances in other real estate assets, mostly attributed to the operations of BF, which had $9.4 million in other real estate as of December 31, 1999.

Assuming the standard industry practice of placing commercial loans on non-accrual status when payments of principal and interest are past due 90 days or more and excluding the closed-end consumer loans from non-accruing, the Corporation's non-performing assets at December 31, 2000, would have been $273 million or 1.70% of loans, and the allowance for loan losses would have been 106.49% of non-performing assets. At December 31, 1999 and 1998, adjusted non-performing assets would have been $247 million or 1.66% of loans and $227 million or 1.73% of loans, respectively. The allowance for loan losses as a percentage of non-performing assets as of December 31, 1999 and 1998, would have been 118.2% and 118.0%, respectively.

Once a loan is placed in non-accrual status the interest previously accrued and uncollected is charged against current earnings and thereafter, income is recorded only to the extent of any interest collected. The interest income that would have been realized had these loans been performing in accordance with their original terms amounted to $23.1 million in 2000, compared with $20.4 million in 1999 and $15.3 million in 1998.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which is considered sufficient to provide for estimated loan losses based on evaluations of known and inherent risks in the loan portfolio. The Corporation's management evaluates the adequacy of the allowance for loan losses on a monthly basis. In determining the allowance, management considers the portfolio risk characteristics, prior loss experience, the results of periodic credit reviews of individual loans, prevailing conditions and loan impairment measurement. A loan is considered impaired when, based on the current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Please refer to Notes 1 and 7 to the consolidated financial statements for further information related to impaired loans and the methodology used by the Corporation for their measurement.

At December 31, 2000, the allowance for loan losses was $291 million or 1.81% of loans, compared with $292 million or 1.96% at the same date in 1999. At December 31, 1998, the allowance was $267 million or 2.04% of loans. The decrease in the allowance to loans ratio resulted mostly from the sale of Banco Fiduciario (BF), which had a higher ratio of allowance to total loans to cover potential losses. Moreover, the decrease in this ratio was attributed to the fact that most of the increase in the loan portfolio was realized in relatively low-risk portfolio like mortgages, whereas consumer loans, which are considered the higher-risk portfolio, had a modest decrease, due in part to the sale of the Corporation's U.S. credit card portfolio. Based on current economic conditions, the expected level of net loan losses and the methodology established to evaluate the adequacy of the allowance for loan losses, management considers that the Corporation continues enjoying an adequate position in its allowance for loan losses.

Broken down by major loan categories, the allowance for the last five years was as follows:

ALLOWANCE FOR LOAN LOSSES
AS OF DECEMBER 31,

(In millions)	2000	1999	1998	1997	1996
Commercial	$ 120.6	$ 140.5	$ 130.2	$ 101.5	$ 91.8
Construction	8.1	8.7	11.6	10.6	10.5
Lease financing	18.6	9.2	8.3	5.9	3.4
Mortgage	12.0	14.6	14.0	10.9	10.3
Consumer	131.4	119.0	103.1	82.8	69.6
	$ 290.7	$ 292.0	$ 267.2	$ 211.7	$ 185.6

Table N summarizes the movement in the allowance for loan losses and presents selected loan loss statistics for the past five years. As this table demonstrates, net loan losses for the year totaled $180.1 million, an increase of $55.4 million or 44.4% from amounts reported in 1999. The rise primarily reflected higher net charge-offs in the consumer and commercial loan portfolio. Net charge-offs as a percentage of average loans increased during the year from 0.90% in 1999 to 1.14% in 2000.

Commercial loans net charge-offs, including construction loans, amounted to $56.4 million in 2000, compared with $32.9 million a year earlier. As a percentage of average commercial loans, this figure increased from 0.52% in 1999 to 0.78% in 2000. The rise in commercial loans net charge-offs was mostly related to the growth of the commercial loan portfolio, as well as the deterioration of the credit quality of a limited number of commercial relationships. The allowance for commercial and construction loans decreased $19.9 million, mostly attributed to lower balances of impaired loans corresponding mainly to BF, partly offset by the impact of factors such as higher delinquencies and current economic conditions.

Consumer loans net charge-offs totaled $104.4 million or 3.06% of average consumer loans for 2000, compared with $81.4 million or 2.52% of average consumer loans for 1999. The increase in consumer loans net charge-offs was principally due to the growth in the portfolio, higher delinquency levels, as well as the impact of accelerating certain charge-offs to comply with the new federal regulatory requirements dictated in the revised Uniform Retail Credit Classification and Account Management Policy, which was described previously. The impact of this adoption approximated $10.2 million in additional net charge-offs in the year 2000.

Table N

Allowance for Loan Losses and Selected Loan Losses Statistics

(Dollars in thousands)	2000	1999	1998	19
Balance at beginning of year	$ 292,010	$ 267,249	$ 211,651	$ 1
Allowances (sold) purchased	(15,869)	515	31,296	
Provision for loan losses	194,640	148,948	137,213	1
	470,781	416,712	380,160	3
Losses charged to the allowance:				
Commercial	73,585	51,011	45,643	
Construction	145	651	190	
Lease financing	32,256	23,009	23,484	
Mortgage	5,615	3,977	2,718	
Consumer	129,430	104,062	92,646	
	241,031	182,710	164,681	1
Recoveries:				
Commercial	17,352	18,589	17,844	
Construction	9	169	337	
Lease financing	17,797	15,839	14,998	
Mortgage	717	771	323	
Consumer	25,028	22,640	18,268	
	60,903	58,008	51,770	
Net loans charged-off (recovered):				
Commercial	56,233	32,422	27,799	
Construction	136	482	(147)	
Lease financing	14,459	7,170	8,486	
Mortgage	4,898	3,206	2,395	
Consumer	104,402	81,422	74,378	
	180,128	124,702	112,911	
Balance at end of year	$ 290,653	$ 292,010	$ 267,249	$ 2
Loans:				
Outstanding at year end	$ 16,057,085	$14,907,754	$ 13,078,795	$11,3
Average	15,801,887	13,901,290	11,930,621	10,5
Ratios:				
Allowance for loan losses to year end loans	1.81%	1.96%	2.04%	
Recoveries to charge-offs	25.27	31.75	31.44	
Net charge-offs to average loans	1.14	0.90	0.95	
Net charge-offs earnings coverage	3.17x	3.92x	3.93x	
Allowance for loan losses to net charge-offs	1.61	2.34	2.37	
Provision for loan losses to:				
Net charge-offs	1.08	1.19	1.22	
Average loans	1.23%	1.07%	1.15%	
Allowance to non-performing assets	83.82	89.54	90.32	

Lease financing net charge-offs totaled $14.5 million or 1.88% of the average lease financing portfolio for the year ended December 31, 2000, compared with $7.2 million or 1.04% for the same period last year. This rise is in part due to a $3.1 million charge-off related to an external fraud scheme that was unveiled during the year in the Corporation's U.S. operations, and represented the balance not covered by insurance. Also, the rise was impacted by the rise in the portfolio and a higher level of delinquencies. These factors contributed to a higher allowance for lease financing losses when compared to prior years.

Mortgage loans net charge-offs increased to $4.9 million in 2000 from $3.2 million in 1999, mostly as a result of the growth in the portfolio. The allowance for loan losses assigned to the mortgage loan portfolio has remained at low levels because these loans are adequately secured by real estate and the amounts due on the loans are generally recovered in foreclosure.

Statistical Summary 1996-2000
Statements of Condition

(In thousands)	2000	1999	1998
			As of December 31,
ASSETS			
Cash and due from banks	$ 726,051	$ 663,696	$ 667,707
Money market investments:			
Federal funds sold and securities purchased under agreements to resell	1,057,320	931,123	910,430
Time deposits with other banks	10,908	54,354	37,206
Bankers' acceptances	390	517	262
	1,068,618	985,994	947,898
Trading securities	153,073	236,610	318,727
Investment securities available-for-sale, at market value	8,704,478	7,324,950	7,020,396
Investment securities held-to-maturity, at amortized cost	356,177	299,312	226,134
Loans held-for-sale, at lower of cost or market	823,901	619,298	644,159
Loans	15,580,379	14,659,400	12,783,609
Less- Unearned income	347,195	370,944	348,973
Allowance for loan losses	290,653	292,010	267,249
	14,942,531	13,996,446	12,167,387
Premises and equipment	405,772	440,971	424,721
Other real estate	23,518	29,268	32,693
Customers' liabilities on acceptances	1,647	12,041	15,937
Accrued income receivable	202,540	175,746	156,314
Other assets	367,150	371,421	263,992
Intangible assets	281,595	304,786	274,292
	$ 28,057,051	$ 25,460,539	$ 23,160,357
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Deposits:			
Non-interest bearing	$ 3,109,885	$ 3,284,949	$ 3,176,309
Interest bearing	11,695,022	10,888,766	10,495,905
	14,804,907	14,173,715	13,672,214
Federal funds purchased and securities sold under agreements to repurchase	4,964,115	4,414,480	4,076,500
Other short-term borrowings	4,369,212	2,612,389	1,639,082
Notes payable	1,176,912	1,852,599	1,307,160
Senior debentures			
Acceptances outstanding	1,647	12,041	15,937
Other liabilities	470,687	436,718	437,760
	25,787,480	23,501,942	21,148,653
Subordinated notes	125,000	125,000	125,000
Preferred beneficial interest in Popular North America's junior subordinated deferrable interest debentures guaranteed by the Corporation	150,000	150,000	150,000
Minority interest in consolidated subsidiaries	927	22,611	27,591
Stockholders' equity:			
Preferred stock	100,000	100,000	100,000
Common stock	830,356	827,662	825,690
Surplus	260,984	243,855	216,795
Retained earnings	865,082	694,301	530,481
Treasury stock - at cost	(66,214)	(64,123)	(39,559)
Accumulated other comprehensive income (loss), net of taxes	3,436	(140,709)	75,706
	1,993,644	1,660,986	1,709,113
	$ 28,057,051	$ 25,460,539	$ 23,160,357

Statistical Summary 1996-2000
Statements of Income

(In thousands, except per common share information)	2000	1999	1998	For the year ended Decemb
INTEREST INCOME:				
Loans	$1,586,832	$ 1,373,158	$1,211,850	$1,
Money market investments	62,356	33,434	36,781	
Investment securities	486,198	425,907	385,473	
Trading account securities	14,771	19,171	17,599	
Total interest income	2,150,157	1,851,670	1,651,703	1,
Less - Interest expense	1,167,396	897,932	778,691	
Net interest income	982,761	953,738	873,012	
Provision for loan losses	194,640	148,948	137,213	
Net interest income after provision for loan losses	788,121	804,790	735,799	
Gain on sale of investment securities	11,201	638	8,933	
Trading account profit (loss)	2,230	(1,582)	3,653	
All other operating income	451,667	373,860	278,660	
	1,253,219	1,177,706	1,027,045	
OPERATING EXPENSES:				
Personnel costs	394,176	386,696	337,400	
All other operating expenses	483,295	450,786	382,954	
	877,471	837,482	720,354	
Income before tax and minority interest	375,748	340,224	306,691	
Income tax	100,797	85,120	74,671	
Net loss of minority interest	1,152	2,454	328	
NET INCOME	$ 276,103	$ 257,558	$ 232,348	$
NET INCOME APPLICABLE TO COMMON STOCK	$ 267,753	$ 249,208	$ 223,998	$
NET INCOME PER COMMON SHARE (BASIC AND DILUTED)(*)	$ 1.97	$ 1.84	$ 1.65	$
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.64	$ 0.60	$ 0.50	$

(*) The average common shares used in the computation of earnings and cash dividend per common share were 135,907,476 for 2000; 135,585,634 for 1999; 135,532,086 for 1998; 134,036,964 for 1997; and 132,044,624 for 1996.

Statistical Summary 1996-2000
Average Balance Sheet and Summary of Net Interest Income

On a Taxable Equivalent Basis(*)

(Dollars in thousands)

	2000			
	AVERAGE BALANCE	INTEREST	AVERAGE RATE	Average Balance
ASSETS				
Interest earning assets:				
Federal funds sold and securities purchased under agreements to resell	$ 914,604	$ 61,238	6.70%	$ 536,905
Time deposits with other banks	17,723	1,062	5.99	143,685
Bankers' acceptances	559	56	10.02	516
Total money market investments	932,886	62,356	6.68	681,106
U.S. Treasury securities	1,762,129	115,801	6.57	2,479,828
Obligations of other U.S. Government agencies and corporations	3,958,406	288,214	7.28	3,028,577
Obligations of Puerto Rico, States and political subdivisions	126,768	8,398	6.62	138,184
Collateralized mortgage obligations and mortgage-backed securities	1,838,016	107,959	5.87	1,246,582
Other	260,143	24,236	9.32	455,488
Total investment securities	7,945,462	544,608	6.85	7,348,659
Trading account securities	213,131	15,624	7.33	313,904
Loans (net of unearned income)	15,801,887	1,597,116	10.11	13,901,290
Total interest earning assets/ Interest income	24,893,366	$ 2,219,704	8.92%	22,244,959
Total non-interest earning assets	1,676,389			1,561,413
TOTAL ASSETS	$26,569,755			$23,806,372
LIABILITIES AND STOCKHOLDERS' EQUITY				
Interest bearing liabilities:				
Savings and NOW accounts	$ 5,924,690	$ 184,018	3.11%	$ 5,877,976
Other time deposits	5,548,509	345,355	6.22	4,874,480
Short-term borrowings	7,781,030	508,029	6.53	5,992,445
Mortgages and notes payable	1,618,517	108,572	6.71	1,558,410
Subordinated notes	125,000	8,545	6.84	125,000
Guaranteed preferred beneficial interest in Popular North America's subordinated debentures	150,000	12,877	8.58	150,000
Total interest bearing liabilities/ Interest expense	21,147,746	1,167,396	5.52	18,578,311
Total non-interest bearing liabilities	3,537,484			3,515,269
Total liabilities	24,685,230			22,093,580
Stockholders' equity	1,884,525			1,712,792
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$26,569,755			$23,806,372
Net interest income on a taxable equivalent basis		$ 1,052,308		
Cost of funding earning assets			4.69%	
Net interest yield			4.23%	

Effect of the taxable equivalent adjustment	69,547
Net interest income per books	$ 982,761

(*) Shows the effect of the tax exempt status of some loans and investments on their yield, using the applicable statutory income tax rates. The computation considers the interest expense disallowance as required by the Puerto Rico Internal Revenue Code. This adjustment is shown in order to compare the yields of the tax exempt and taxable assets on a taxable basis. Note: Average loan balances include the average balance of non-accruing loans. No interest income is recognized for these loans in accordance with the Corporation's policy.

1998			1997			199	
Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Inter
$ 670,072	$ 31,814	4.75%	$ 595,715	$ 31,504	5.29%	$ 878,138	$ 45
82,935	4,889	5.89	34,271	2,181	6.36	12,562	
778	78	10.03	2,463	238	9.66	2,202	
753,785	36,781	4.88	632,449	33,923	5.36	892,902	46
3,227,375	231,837	7.18	3,553,347	249,739	7.03	3,198,912	222
1,477,168	111,332	7.54	967,973	69,709	7.20	531,711	34
136,824	9,272	6.78	141,625	9,716	6.86	231,363	11
1,318,097	81,970	6.22	1,150,214	72,245	6.28	772,278	46
130,861	14,015	10.71	114,201	7,718	6.76	95,985	5
6,290,325	448,426	7.13	5,927,360	409,127	6.90	4,830,249	320
287,218	18,943	6.60	301,618	19,770	6.55	372,196	23
11,930,621	1,218,849	10.22	10,548,207	1,087,466	10.31	9,210,964	930
19,261,949	$ 1,722,999	8.95%	17,409,634	$1,550,286	8.90%	15,306,311	$1,320
1,170,433			1,009,510			994,771	
$20,432,382			$18,419,144			$16,301,082	
$ 5,221,132	$ 163,805	3.14%	$ 4,674,577	$ 147,321	3.15%	$ 4,244,625	$ 131
4,437,193	247,687	5.58	4,023,313	219,207	5.45	4,163,416	218
4,622,549	251,724	5.45	4,280,900	237,738	5.55	3,464,892	184
1,371,372	93,846	6.84	1,345,650	83,936	6.24	757,604	46
125,000	8,555	6.84	125,000	8,558	6.85	147,951	10
150,000	13,074	8.72	122,877	10,588	8.62		
15,927,246	778,691	4.89	14,572,317	707,348	4.85	12,778,488	591
2,951,878			2,475,843			2,329,088	
18,879,124			17,048,160			15,107,576	
1,553,258			1,370,984			1,193,506	
$20,432,382			$18,419,144			$16,301,082	
	$ 944,308			$ 842,938			$ 729
		4.04%			4.06%		
		4.91%			4.84%		
	71,296			58,983			48
	$ 873,012			$ 783,955			$ 681

(In thousands, except per common share information)	2000				199	
	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	Fourth Quarter	Third Quarter
SUMMARY OF OPERATIONS						
Interest income	$558,408	$561,174	$524,774	$505,801	$485,542	$468,532
Interest expense	312,659	312,318	278,858	263,561	245,686	229,740
Net interest income	245,749	248,856	245,916	242,240	239,856	238,792
Provision for loan losses	46,242	49,666	48,719	50,013	39,466	37,080
Non-interest income	121,900	120,579	108,956	102,462	102,047	96,984
Gain (loss) on sale of investment securities	(2,539)	147	329	13,264	(137)	39
Non-interest expense	210,691	220,904	219,372	226,504	215,670	214,704
Income before income tax and minority interest	108,177	99,012	87,110	81,449	86,630	84,031
Income tax	32,695	27,662	21,684	18,756	21,497	20,887
Net loss (gain) of minority interest	17	(58)	(303)	1,496	574	1,066
Net income	$ 75,499	$ 71,292	$ 65,123	$ 64,189	$65,707	$ 64,210
Net income applicable to common stock	$ 73,410	$ 69,205	$ 63,036	$ 62,102	$63,618	$ 62,123
Net income per common share	$ 0.54	$ 0.51	$ 0.46	$ 0.46	$ 0.47	$ 0.46
SELECTED AVERAGE BALANCES (In millions)						
Total assets	$ 27,599	$ 27,271	$ 25,972	$ 25,467	$24,733	$ 24,115
Loans	16,223	16,309	15,681	15,028	14,573	14,132
Interest earning assets	25,953	25,553	24,337	23,757	23,060	22,546
Deposits	14,706	14,770	14,422	14,148	13,965	13,802
Interest bearing liabilities	22,108	21,821	20,565	20,100	19,388	18,889
SELECTED RATIOS						
Return on assets	1.09%	1.04%	1.01%	1.01%	1.05%	1.06%
Return on equity	15.72	15.24	14.43	14.57	15.06	15.23

Report of Independent Accountants

[PRICEWATERHOUSECOOPERS LOGO]

To the Board of Directors and Stockholders of Popular, Inc.

In our opinion, the accompanying consolidated statements of condition and the related consolidated statements of income, of comprehensive income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Popular, Inc. and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accor- dance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP
San Juan, Puerto Rico
February 19, 2001

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Society of Certified Public

Accountants has been affixed to the file copy of this report.

Consolidated Statements of Condition

(In thousands, except per share information)	
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ASSETS	
Cash and due from banks	$

Money market investments:	
Federal funds sold and securities purchased under agreements to resell	
Time deposits with other banks	
Bankers' acceptances	

Trading securities, at market value:	
Pledged securities with creditors' right to repledge	
Other trading securities	
Investment securities available-for-sale, at market value:	
Pledged securities with creditors' right to repledge	
Other securities available-for-sale	
Investment securities held-to-maturity, at amortized cost (market value $350,018; 1999 - $295,075)	
Loans held-for-sale, at lower of cost or market	

Loans	1
Less - Unearned income	
Allowance for loan losses	

	1

Premises and equipment	
Other real estate	
Customers' liabilities on acceptances	
Accrued income receivable	
Other assets	
Intangible assets	

	$ 2
	===
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Deposits:	
Non-interest bearing	$
Interest bearing	1

	1
Federal funds purchased and securities sold under agreements to repurchase	
Other short-term borrowings	
Notes payable	
Acceptances outstanding	
Other liabilities	

	2

Subordinated notes	

Preferred beneficial interest in Popular North America's junior subordinated deferrable interest debentures guaranteed by the Corporation	

Commitments and contingencies	
Minority interest in consolidated subsidiaries	

Stockholders' equity:	
Preferred stock, $25 liquidation value; 10,000,000 shares authorized; 4,000,000 issued and outstanding	
Common stock, $6 par value; 180,000,000 shares authorized; 138,392,822 shares issued (1999 - 137,943,619) and 135,998,617 shares outstanding (1999 - 135,654,292)	
Surplus	
Retained earnings	
Accumulated other comprehensive income (loss), net of tax of $1,683 (1999 - ($35,993))	
Treasury stock - at cost, 2,394,205 shares (1999 - 2,289,327)	

$ 2
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The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Income

(In thousands, except per share information)	Year ended December 31, 2000	1999	1998
INTEREST INCOME:			
Loans	$1,586,832	$ 1,373,158	$1,211,8
Money market investments	62,356	33,434	36,7
Investment securities	486,198	425,907	385,4
Trading securities	14,771	19,171	17,5
	2,150,157	1,851,670	1,651,7
INTEREST EXPENSE:			
Deposits	529,373	452,215	411,4
Short-term borrowings	508,029	317,646	251,7
Long-term debt	129,994	128,071	115,4
	1,167,396	897,932	778,6
Net interest income	982,761	953,738	873,0
Provision for loan losses	194,640	148,948	137,2
Net interest income after provision for loan losses	788,121	804,790	735,7
Service charges on deposit accounts	125,519	118,187	103,7
Other service fees	217,034	169,727	116,5
Gain on sale of investment securities	11,201	638	8,9
Trading account profit (loss)	2,230	(1,582)	3,6
Other operating income	109,114	85,946	58,3
	1,253,219	1,177,706	1,027,0
OPERATING EXPENSES:			
Personnel costs:			
Salaries	306,529	289,995	247,5
Profit sharing	18,913	23,881	22, 0
Pension and other benefits	68,734	72,820	67,7
	394,176	386,696	337,4
Net occupancy expenses	67,720	60,814	48,6
Equipment expenses	98,022	88,334	75,3
Other taxes	34,125	33,290	32,1
Professional fees	65,889	67,955	58,0
Communications	45,689	43,146	36,9
Business promotion	46,791	45,938	39,3
Printing and supplies	20,828	20,709	17,6
Other operating expenses	69,673	58,812	46,9
Amortization of intangibles	34,558	31,788	27,8
	877,471	837,482	720,3
Income before income tax and minority interest	375,748	340,224	306,6
Income tax	100,797	85,120	74,6
Net loss of minority interest	1,152	2,454	3
NET INCOME	$ 276,103	$ 257,558	$ 232,3
NET INCOME APPLICABLE TO COMMON STOCK	$ 267,753	$ 249,208	$ 223,9
NET INCOME PER COMMON SHARE (BASIC AND DILUTED)	$ 1.97	$ 1.84	$ 1.
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.64	$ 0.60	$ 0.

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

	Year ended	
(In thousands)	2000	199
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 276,103	$ 257
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	76,848	71
Provision for loan losses	194,640	148
Net amortization of intangibles	34,558	31
Net gain on sale of investment securities available-for-sale	(11,201)	
Net loss on disposition of premises and equipment	210	
Net gain on sale of loans	(7,935)	(2
Net amortization of premiums and accretion of discounts on investments	920	6
Net (increase) decrease in loans held-for-sale	(204,603)	26
Net amortization of deferred loan origination fees and costs	(5,265)	
Net decrease (increase) in trading securities	83,537	82
Net increase in accrued income receivable	(32,526)	(19
Net (increase) decrease in other assets	(29,116)	(38
Net increase in interest payable	24,901	18
Net decrease in current and deferred taxes	(11,234)	(50
Net increase in postretirement benefit obligation	3,844	9
Net increase in other liabilities	18,625	28
Total adjustments	136,203	312
Net cash provided by operating activities	412,306	569
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in money market investments	(113,403)	(38
Purchases of investment securities held-to-maturity	(5,517,411)	(6,070
Maturities and redemptions of investment securities held-to-maturity	5,458,897	6,095
Purchases of investment securities available-for-sale	(4,797,570)	(6,305
Maturities of investment securities available-for-sale	2,784,494	5,467
Proceeds from sales of investment securities available-for-sale	818,955	168
Net disbursements on loans	(1,850,576)	(2,943
Proceeds from sale of loans	1,024,637	920
Acquisition of loan portfolios	(589,178)	(5
Assets acquired, net of cash	(8,453)	(1
Acquisition of premises and equipment	(75,147)	(108
Proceeds from sale of premises and equipment	11,631	24
Cash transferred due to sale of investment in subsidiary	(46,899)	
Net cash used in investing activities	(2,900,023)	(2,797
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	926,171	501
Net deposits acquired		
Net increase in federal funds purchased and securities sold under agreements to repurchase	549,635	337
Net increase in other short-term borrowings	1,794,575	972
Proceeds from issuance of notes payable	291,819	789
Payment of notes payable	(924,563)	(246
Dividends paid	(95,297)	(87
Proceeds from issuance of common stock	9,823	9
Treasury stock acquired	(2,091)	(53
Net cash provided by financing activities	2,550,072	2,223
Net increase (decrease) in cash and due from banks	62,355	(4
Cash and due from banks at beginning of year	663,696	667
Cash and due from banks at end of year	$ 726,051	$ 663

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

(In thousands)	Year ended December 31, 2000	1999	1998
PREFERRED STOCK:			
Balance at beginning and end of year	$ 100,000	$ 100,000	$ 100,0
COMMON STOCK:			
Balance at beginning of year	827,662	825,690	412,0
Transfer from surplus resulting from stock split			412,4
Common stock issued under Dividend Reinvestment Plan	2,694	1,972	1,2
Balance at end of year	830,356	827,662	825,6
SURPLUS:			
Balance at beginning of year	243,855	216,795	602,0
Common stock issued under Dividend Reinvestment Plan	7,129	7,415	6,1
Transfer to common stock resulting from stock split			(412,4
Treasury stock issued for acquisition		15,645	
Transfer from retained earnings	10,000	4,000	21,0
Balance at end of year	260,984	243,855	216,7
RETAINED EARNINGS:			
Balance at beginning of year	694,301	530,481	395,2
Net income	276,103	257,558	232,3
Cash dividends declared on common stock	(86,972)	(81,388)	(67,7
Cash dividends declared on preferred stock	(8,350)	(8,350)	(8,3
Transfer to surplus	(10,000)	(4,000)	(21,0
Balance at end of year	865,082	694,301	530,4
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):			
Balance at beginning of year	(140,709)	75,706	33,3
Other comprehensive income (loss), net of taxes	144,145	(216,415)	42,3
Balance at end of year	3,436	(140,709)	75,7
TREASURY STOCK - AT COST:			
Balance at beginning of year	(64,123)	(39,559)	(39,5
Purchase of common stock	(2,091)	(53,919)	
Treasury stock issued in acquisitions		29,355	
Balance at end of year	(66,214)	(64,123)	(39,5
Total stockholders' equity	$1,993,644	$ 1,660,986	$1,709,1

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Comprehensive Income

(In thousands)	Year ended D 2000	199
Net income	$ 276,103	$ 257
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	(1,297)	(1
Less: reclassification adjustment for foreign currency translation loss realized upon the sale of investment in a foreign entity	(1,678)	
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during the period, net of tax of $40,042 (1999 - ($61,064); 1998 - $15,721)	153,280	(215
Less: reclassification adjustment for gains or losses included in net income, net of tax of $2,366 (1999 - $106; 1998 - $1,727)	9,516	
Total other comprehensive income (loss), net of tax	144,145	(216
Comprehensive income	$ 420,248	$ 41

Disclosure of accumulated other comprehensive income (loss):

(In thousands)	Year ended 2000	1999
Foreign currency translation adjustment	$ (884)	$ (1
Unrealized gains (losses) on securities	4,320	(139
Accumulated other comprehensive income (loss)	$ 3,436	$ (140

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of Popular, Inc. and its subsidiaries (the Corporation) conform with generally accepted accounting principles and with general practices within the financial industry. The following is a description of the most significant of these policies:

Nature of operations

Popular, Inc. is a bank holding company offering a full range of financial services through banking offices in Puerto Rico, the United States and the U.S. and British Virgin Islands. The Corporation is also engaged in mortgage and consumer finance, lease financing, investment banking and broker/dealer activities, retail financial services and information technology, ATM and data processing services through its non-banking subsidiaries in Puerto Rico, the United States and the Caribbean and Central America. Furthermore, effective July 1, 2000, the Corporation entered into the insurance business through the creation of Banco Popular, National Association and its subsidiary Popular Insurance, Inc. Note 30 to the consolidated financial statements presents further information about the Corporation's business segments.

As part of a merger agreement between Banco Fiduciario (BF) and another local financial institution in the Dominican Republic, the Corporation sold its 57% ownership interest in BF on August 24, 2000. The Corporation retained an option to acquire a minority interest in the resulting new financial institution.

Principles of consolidation

The consolidated financial statements include the accounts of Popular, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Trading securities

The Corporation utilizes financial instruments, including, to a limited extent, derivatives such as interest rate futures and options contracts, in trading activities and are carried at market value. Realized and unrealized changes in market values are recorded separately in the trading profit or loss account in the period in which the changes occur. Interest revenue and expense arising from trading instruments are included in the income statement as part of net interest income rather than in the trading profit or loss account.

Securities sold but not yet purchased, which represent the Corporation's obligation to deliver securities sold which were not owned at the time of sale, are recorded at market value.

Investment securities

Investment securities are classified in three categories and accounted for as follows:

- Debt securities that the Corporation has the intent and ability to hold to maturity are classified as securities held-to-maturity and reported at amortized cost. The Corporation may not sell or transfer held-to-maturity securities without calling into question its intent to hold other debt securities to maturity, unless a nonrecurring or unusual event that could not have been reasonably anticipated has occurred. Stock that is owned by the Corporation to comply with regulatory requirements, such as Federal Reserve Bank and Federal Home Loan Bank (FHLB) stock, is also included in this category.

- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term

are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.

- Debt and equity securities not classified as either securities held-to-maturity or trading securities are classified as securities available-for-sale and reported at fair value, with unrealized gains and losses excluded from earnings and reported net of taxes in other comprehensive income.

The amortization of premiums is deducted and the accretion of discounts is added to interest income based on a method which approximates the interest method over the outstanding period of the related securities. The cost of securities sold is determined by specific identification. Net realized gains or losses on sales of investment securities and unrealized loss valuation adjustments considered other than temporary, if any, on securities available-for-sale and held-to maturity are reported separately in the statement of income.

In 1999, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise." This statement requires that an entity engaged in mortgage banking activities classify the mortgage-backed securities or other retained interests resulting from the securitization of mortgage loans held-for-sale, based on its ability and intent to sell or hold those investments, in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." During 1999, the Corporation reclassified $150,740,000 in securities held for trading to the available-for-sale and held-to-maturity categories based on the adoption provisions of SFAS No. 134.

Risk management instruments

The Corporation occasionally uses derivative financial instruments, such as interest rate caps and swaps, in the management of its interest

rate exposure. These instruments are accounted for primarily on an accrual basis. Under the accrual method, interest income or expense on the derivative contract is accrued and there is no recognition of unrealized gains and losses on the derivative instrument. Premiums or discounts on option contracts are amortized to interest income or interest expense over the life of such contracts. Income and expenses arising from the instruments are recorded in the category appropriate to the related asset or liability.

Gains and losses related to contracts that are effective hedges are deferred and recognized in income in the same period as gains and losses on the hedged item. Gains and losses on early termination of contracts that modify the characteristics of specified assets or liabilities are deferred and amortized as an adjustment to the yield of the related assets or liabilities over their remaining terms.

Loans held-for-sale

Loans held-for-sale are stated at the lower of cost or market, cost being determined based on the outstanding loan balance less unearned income, and fair market value determined on an aggregate basis according to secondary market prices. The amount by which cost exceeds market value, if any, is accounted for as a valuation allowance with changes included in the determination of net income for the period in which the change occurs.

Loans

Loans are stated at the outstanding balance less unearned income and allowance for loan losses. Fees collected and costs incurred in the origination of new loans are deferred and amortized using the interest method over the term of the loan as an adjustment to interest yield.

Recognition of interest income on commercial and construction loans is discontinued when loans are 60 days or more in arrears on payments of principal or interest or when other factors indicate that collection of principal and interest is doubtful. Interest accrual for lease financing, conventional mortgage loans and close-end consumer loans is ceased when loans are 90 days or more in arrears. Loans designated as non-accruing are not returned to an accrual status until interest is received on a current basis and those factors indicative of doubtful collection cease to exist. Close-end consumer loans and leases are charged-off against the allowance for loan losses when 120 days in arrears. Open-end (revolving credit) consumer loans are charged-off when 180 days in arrears. Income is generally recognized on open-end consumer loans until the loans are charged-off.

During 2000 the Corporation adopted the revised Uniform Retail Credit Classification and Account Management Policy issued by the Federal Financial Institutions Examination Council (FFIEC) in 1999. Based on the revised policy, unsecured retail loans to borrowers who declare bankruptcy are charged-off within 60 days of receipt of notification of filing from the bankruptcy court, or within the charge-off time frames adopted in the classification policy, whichever is shorter. The revised policy details criteria that must be met before the Corporation may consider a delinquent open-end loan current, such as the process of account re-aging, extension and deferral. The adoption of the revisions to this policy did not have a material effect on the consolidated financial statements of the Corporation.

Lease financing

The Corporation leases passenger and commercial vehicles and equipment to individual and corporate customers. The finance method of accounting is used to recognize revenue on lease contracts that meet the criteria specified in SFAS No. 13, "Accounting for Leases", as amended. Aggregate rentals due over the term of the leases less unearned income are included in finance lease contracts receivable. Unearned income is amortized using a method which results in approximate level rates of return on the principal amounts outstanding. Finance lease origination fees and costs are deferred and amortized over the average life of the portfolio as an adjustment to the yield.

Revenue for other leases is recognized as it becomes due under the terms of the agreement.

Allowance for loan losses

The Corporation follows a systematic methodology to establish and evaluate the adequacy of the allowance for loan losses to provide for inherent losses in the loan portfolio. This methodology includes the consideration of

factors such as current economic conditions, portfolio risk characteristics, prior loss experience, results of periodic credit reviews of individual loans and financial accounting standards. The provision for loan losses charged to current operations is based on such methodology. Loan losses are charged and recoveries are credited to the allowance for loan losses.

The Corporation has defined impaired loans as loans with interest and/or principal past due 90 days or more and other specific loans for which, based on current information and events, it is probable that the debtor will be unable to pay all amounts due according to the contractual terms of the loan agreement. Loan impairment is measured based on the present value of expected future cash flows discounted at the loan's effective rate, on the observable market price of the loan or on the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment based on past experience adjusted for current conditions. Larger balance commercial loans are evaluated on a loan- by-loan basis. Once a specific measurement methodology is chosen, it is consistently applied unless there is a significant change in the financial position of the borrower. Impaired loans for which the discounted cash flows, collateral value or market price is less than its carrying value requires an allowance. The allowance for impaired loans is part of the Corporation's overall allowance for loan losses.

Cash payments received on impaired loans are recorded in accordance with the contractual terms of the loan. The principal portion of the payment is used to reduce the principal balance of the loan,

whereas the interest portion is recognized as interest income. However, when management believes the ultimate collectibility of principal is in doubt, the interest portion is then applied to principal.

Servicing assets

Servicing asset, an intangible asset, represents the cost of acquiring the contractual right to service loans for others. Loan servicing fees, which are based on a percentage of the principal balances of the loans serviced, are credited to income as loan payments are collected.

The Corporation recognizes as separate assets the rights to service loans for others, whether those servicing assets are originated or purchased. The total cost of loans to be sold with servicing assets retained is allocated to the servicing assets and the loans (without the servicing asset), based on their relative fair values. Servicing assets are amortized in proportion to and over the period of estimated net servicing income. In addition, the Corporation assesses capitalized servicing assets for impairment based on the fair value of those assets.

To estimate the fair value of servicing assets the Corporation considers prices for similar assets and the present value of expected future cash flows associated with the servicing assets calculated using assumptions that market participants would use in estimating future servicing income and expense, including, discount rates, anticipated prepayment and credit loss rates. For purposes of evaluating and measuring impairment of capitalized servicing assets, the Corporation stratifies such assets based on predominant risk characteristics of underlying loans, such as loan type, rate and term. The amount of impairment recognized, if any, is the amount by which the capitalized servicing assets per stratum exceed its estimated fair value. Impairment is recognized through a valuation allowance with changes included in net income for the period in which the change occurs.

Interest-only securities

The Corporation periodically sells residential mortgage loans to a qualifying special-purpose entity (SPE), which in turn issue asset-based securities to investors. The Corporation retains an interest in the loans sold in the form of a residual or interest-only security and may also retain other subordinated interests in the receivables sold to the SPE. The residual or interest-only security represents the present value of future excess cash flows resulting from the difference between the finance charge income received from the obligors on the loans and the interest paid to the investors in the assets-backed securities, net of credit losses, servicing fees and other expenses. In the course of business the Corporation also acquires interest-only securities in the secondary market. The interest-only securities are classified as available-for-sale securities and are measured at fair value. Factors considered in the valuation model for calculating the fair value of these subordinated interests are market discount rates, anticipated prepayment and loss rates on the underlying assets.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated useful life of each type of asset. Amortization of leasehold improvements is computed over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Costs of maintenance and repairs which do not improve or extend the life of the respective assets are expensed as incurred. Costs of renewals and betterments are capitalized. When assets are disposed of, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings as realized or incurred, respectively.

The Corporation evaluates for impairment its long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and used, and long-lived assets to be disposed of, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Other real estate

Other real estate comprises properties acquired through foreclosure. Upon foreclosure, the recorded amount of the loan is written-down, if required, to the appraised value less estimated costs of disposal of the real estate acquired, by charging the allowance for loan losses. Subsequent to foreclosure, the properties are carried at the lower of carrying value or fair value less estimated costs of disposal. Gains or losses on the sale of these properties are credited or charged to expense of operating other real estate. The cost of maintaining and

operating such properties is expensed as incurred.

Intangible assets

Intangible assets consist of goodwill and other identifiable intangible assets, mainly core deposits and servicing rights. The values of core deposits and credit customer relationships are amortized using various methods over the periods benefited, which range from 4 to 10 years. Goodwill represents the excess of the Corporation's cost of purchased operations over the fair value of the net assets acquired and is amortized on the straight-line basis over 15 years.

Securities sold/purchased under agreements to repurchase/resell

Repurchase and resell agreements are treated as financing transactions and are carried at the amounts at which the securities will be reacquired or resold as specified in the respective agreements.

It is the Corporation's policy to take possession of securities purchased under resell agreements. However, the counterparties to such agreements maintain effective control over such securities, accordingly, they are not reflected in the Corporation's statement of condition. The Corporation monitors the market value of the underlying securities as compared to the related receivable, including accrued interest, and requests additional collateral where deemed appropriate.

It is the Corporation's policy to maintain effective control over securities sold under agreements to repurchase, accordingly, such securities continue to be carried on the statement of condition.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated to U.S. dollars using prevailing rates of exchange. Revenues, expenses, gains and losses are translated using weighted average rates for the period. The resulting foreign currency translation adjustment from operations for which the functional currency is other than the U.S. dollar, is reported in other comprehensive income.

Income taxes

The Corporation uses an asset and liability approach to the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Corporation's financial statements or tax returns. Deferred income tax assets and liabilities are determined for differences between financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. The computation is based on enacted tax laws and rates applicable to periods in which the temporary differences are expected to be recovered or settled. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Employees' retirement and other postretirement benefit plans

Banco Popular de Puerto Rico (BPPR) and Banco Popular North America (BPNA) have trusteed, noncontributory retirement and other benefit plans covering substantially all full-time employees. Pension costs are computed on the basis of accepted actuarial methods and are charged to current operations. Net pension costs are based on various actuarial assumptions regarding future experience under the plan, which include costs for services rendered during the period, interest costs and return on plan assets, as well as deferral and amortization of certain items such as actuarial gains or losses. The funding policy is to contribute to the plan as necessary to provide for services to date and for those expected to be earned in the future. To the extent that these requirements are fully covered by assets in the plan, a contribution may not be made in a particular year.

BPPR also provides certain health and life insurance benefits for eligible retirees and their dependents. The cost of postretirement benefits, which is determined based on actuarial assumptions and estimates of the costs of providing these benefits in the future, is accrued during the years that the employee renders the required service.

Stock compensation

BPPR provides a stock-based compensation plan for its Senior Management. It is a three-year incentive plan under which shares of common stock of the Corporation are granted if long-term corporate performance and objectives are met. SFAS No. 123, "Accounting for Stock-Based Compensation" established a fair value based method of accounting for stock-based compensation plans and encourages entities to adopt that method of accounting for their employee stock compensation plans. This pronouncement also allows an entity to continue to measure compensation cost for those plans based on APB Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" and disclose the pro forma net income and net income per share as if the fair value method had been applied in measuring cost. Compensation cost is determined based on the market value of the stock as required by the variable accounting provisions of APB 25 and is recognized when probable, based on the best estimate of the outcome of the performance condition. For this compensation plan, the accounting under APB 25 and SFAS 123 is the same. Therefore, no additional disclosures are necessary as required by SFAS 123.

Transfers and servicing of financial assets and extinguishment of liabilities

After a transfer of financial assets, the Corporation recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished.

Comprehensive income

Comprehensive income is defined as the change in equity of a business enterprise during a period from

transactions and other events and circumstances, except those resulting from investments by owners and distributions to owners. The presentation of comprehensive income is included in a separate statement of comprehensive income.

Earnings per common share

Earnings per common share are computed by dividing net income, reduced by dividends on preferred stock, by the weighted average number of common shares of the Corporation outstanding during the year. No dilutive potential common shares were outstanding during the years ended December 31, 2000, 1999 and 1998. Accordingly, there is no difference between basic and diluted earnings per share.

Statement of cash flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks.

Reclassifications

Certain reclassifications have been made to the 1999 and 1998 consolidated financial statements to conform with the 2000 presentation.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AND REGULATIONS

Accounting for derivative instruments and hedging activities

In June 2000, the Financial Accounting Standards Board ("FASB") issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" - an Amendment of FASB Statement No. 133." This statement addresses a limited number of issues causing implementation difficulties for numerous entities required to apply SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 and SFAS 138 establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The statements require recognition of all derivatives as either assets or liabilities in the statement of condition measured at fair value. They also establish unique accounting treatment for the following three different types of hedges: fair value hedges, cash flow hedges and foreign currency hedges. The accounting for each of the three types of hedges results in recognizing offsetting changes in value or cash flows of both the derivative instrument and the hedged item in earnings in the same period. Changes in the fair value of derivatives that do not meet the criteria of one of these three types of hedges are included in earnings in the period of change. The Corporation adopted these statements on January 1, 2001.

In managing its market risk the Corporation enters, to a limited extent, into certain derivatives primarily interest rate swaps, interest rate swaptions and interest-rate caps and floors embedded in interest-bearing contracts. As of December 31, 2000, the Corporation had $50,000,000 in notional amount of interest rate swaps, which will be accounted for as hedged instruments under SFAS No. 133, as amended. In addition, there are $118,664,000 in notional amount of interest rate swaptions, which are related to certificates of deposit with returns linked to the Standard and Poor's 500 index through an embedded option which will be bifucarted in accordance with the pronouncement. The interest-rate caps and floors embedded in the interest bearing contracts are clearly and closely related to the economic characteristics of the contract and as stated in the pronouncement will not be bifurcated from the host contract. The initial impact of the adoption of SFAS No. 133 on net income and other comprehensive income was approximately $686,000 (net of tax) and $254,000 (net of tax), respectively.

As permitted by SFAS No. 133, the Corporation also reclassified $29,526,000 of its held-to-maturity securities as available-for-sale securities. This reclassification resulted in its recording a net of tax cumulative-effect-type adjustment of $390,000 (gain) in other comprehensive income.

Transfer and Servicing of Financial Assets and Liabilities

The FASB recently issued SFAS No. 140, "Accounting for Transfer and Servicing of Financial Assets and Liabilities - A Replacement of SFAS 125." This statement revises the standards of accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of the provisions of SFAS 125 without reconsideration. This statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. It is effective for transfers and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001. This statement is also effective for recognition and reclassification of collateral and disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. Management believes that the full adoption of this statement will not have a material effect on the consolidated financial statements of the Corporation. Required disclosures for collateral and securitization transactions are incorporated in these financial statements.

NOTE 2 - CASH AND DUE FROM BANKS:

The Corporation's subsidiary banks are required by regulatory agencies to maintain average reserve balances. The amount of those required average reserve balances was approximately $439,609,000 at December 31, 2000 (1999 - $531,324,000).

NOTE 3 - SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL:

The securities underlying the agreements to resell were delivered to, and are held by, the Corporation. The counterparties to such agreements maintain effective control over such securities. Although the Corporation is permitted by contract or custom to repledge the securities, it has agreed to resell to the counterparties the same or substantially similar securities at the maturity of the agreements.

The fair value of the collateral securities received by the Corporation on these transactions as of December 31, were as follows:

(In thousands)	2000	1999
Repledged	$899,363	$727,570
Not repledged	57,465	47,504
Total	$956,828	$775,074

The repledged securities were used as underlying securities for repurchase agreements transactions.

NOTE 4 - INVESTMENT SECURITIES AVAILABLE-FOR-SALE:

The amortized cost, gross unrealized gains and losses, approximate market value (or fair value for certain investment securities where no market quotations are available), weighted average yield and contractual maturities of investment securities available-for-sale as of December 31, 2000 and 1999 (1998 - only market value is presented) were as follows:

	2000			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
	(Dollars in thousands)			
U.S. Treasury securities (average maturity of 1 year and 1 month):				
Within 1 year	$ 589,795	$ 174	$ 348	$ 589,621
After 1 to 5 years	550,749	6,374		557,123
	1,140,544	6,548	348	1,146,744
Obligations of other U.S. Government agencies and corporations (average maturity of 4 years and 9 months):				
Within 1 year	1,255,343	1,420	501	1,256,262
After 1 to 5 years	1,826,198	15,370	414	1,841,154
After 5 to 10 years	1,620,131	1,869	30,355	1,591,645
After 10 years	300,000		11,392	288,608
	5,001,672	18,659	42,662	4,977,669
Obligations of P.R., States and political subdivisions (average maturity of 10 years and 5 months):				
Within 1 year	2,895	1	16	2,880
After 1 to 5 years	9,054	55	35	9,074
After 5 to 10 years	23,206	354	120	23,440
After 10 years	35,523	1,197	836	35,884
	70,678	1,607	1,007	71,278
Collateralized mortgage obligations (average maturity of 23 years and 5 months):				
After 1 to 5 years	28,975		10	28,965
After 5 to 10 years	80,547	779	126	81,200
After 10 years	1,443,022	4,859	4,761	1,443,120
	1,552,544	5,638	4,897	1,553,285
Mortgage-backed securities (average maturity of 23 years and 3 months):				
Within 1 year	14			14
After 1 to 5 years	19,587		1,026	18,561
After 5 to 10 years	20,806	67	135	20,738
After 10 years	660,437	3,048	6,811	656,674
	700,844	3,115	7,972	695,987
Equity securities (without contractual maturity)	138,101	27,101	997	164,205
Other (average maturity of 11 years and 9 months):				
Within 1 year	6,784			6,784
After 1 to 5 years	776		25	751
After 5 to 10 years	7,849	88	305	7,632
After 10 years	78,683	1,699	239	80,143
	94,092	1,787	569	95,310
	$8,698,475	$64,455	$ 58,452	$8,704,478

	1999				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value	Weight averag yield
			(Dollars in thousands)		
U.S. Treasury securities (average maturity of 1 year and 7 months):					
Within 1 year	$ 621,487		$ 985	$ 620,502	5.34%
After 1 to 5 years	1,396,617		12,942	1,383,675	5.69
	2,018,104		13,927	2,004,177	5.58
Obligations of other U.S. Government agencies and corporations (average maturity of 5 years and 3 months):					
Within 1 year	733,917	$ 9	720	733,206	5.62
After 1 to 5 years	1,026,476		13,963	1,012,513	5.57
After 5 to 10 years	1,456,566		102,571	1,353,995	6.19
After 10 years	300,000		32,312	267,688	6.40
	3,516,959	9	149,566	3,367,402	5.91
Obligations of P.R., States and political subdivisions (average maturity of 10 years):					
Within 1 year	2,485	3		2,488	5.14
After 1 to 5 years	13,349	33	98	13,284	5.75
After 5 to 10 years	29,741	248	393	29,596	5.96
After 10 years	30,137	750	337	30,550	5.91
	75,712	1,034	828	75,918	5.88
Collateralized mortgage obligations (average maturity of 23 years and 2 months):					
Within 1 year	6,878	3		6,881	6.83
After 1 to 5 years	35,492		29	35,463	6.80
After 5 to 10 years	91,848	61	1,397	90,512	6.36
After 10 years	1,089,877	243	26,914	1,063,206	6.65
	1,224,095	307	28,340	1,196,062	6.63
Mortgage-backed securities (average maturity of 24 years and 5 months):					
Within 1 year	36			36	9.80
After 1 to 5 years	23,447		704	22,743	5.54
After 5 to 10 years	28,935	190	444	28,681	6.81
After 10 years	431,622	7,888	1,809	437,701	6.71
	484,040	8,078	2,957	489,161	6.66
Equity securities (without contractual maturity)	126,430	15,405	54	141,781	0.58
Other (average maturity of 10 years and 11 months):					
Within 1 year	894			894	14.00
After 1 to 5 years	9,901		2,186	7,715	3.01
After 5 to 10 years	5,131		183	4,948	6.35
After 10 years	39,121	1,050	3,279	36,892	4.64

55,047	1,050	5,648	50,449	4.66
$7,500,387	$ 25,883	$ 201,320	$7,324,950	5.89%

The weighted average yield on investment securities available-for-sale is based on amortized cost, therefore it does not give effect to changes in fair value.

The expected maturities of collateralized mortgage obligations, mortgage-backed securities and certain other securities differ from their contractual maturities because they may be subject to prepayments.

The aggregate amortized cost and approximate market value of investment securities available-for-sale at December 31, 2000, by contractual maturity are shown below:

(In thousands)	Amortized cost	Market value
Within 1 year	$1,854,831	$1,855,561
After 1 to 5 years	2,435,339	2,455,628
After 5 to 10 years	1,752,539	1,724,655
After 10 years	2,517,665	2,504,429
Total	8,560,374	8,540,273
Without contractual maturity	138,101	164,205
Total investment securities available-for-sale	$8,698,475	$8,704,478

Proceeds from the sale of investment securities available-for-sale during 2000 were $818,955,000 (1999 - $168,337,000; 1998 - $923,409,000). Gross realized gains and losses on those sales during the year were $17,048,000 and $5,847,000, respectively (1999 - $978,000 and $340,000; 1998 - $9,190,000 and $257,000).

NOTE 5 - INVESTMENT SECURITIES HELD-TO-MATURITY:

The amortized cost, gross unrealized gains and losses, approximate market value (or fair value for certain investment securities where no market quotations are available), weighted average yield and contractual maturities of investment securities held-to-maturity as of December 31, 2000 and 1999 (1998 - only amortized cost is presented) were as follows:

	2000				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value	Weighted average yield
	(Dollars in thousands)				
Obligations of other U.S. Government agencies and corporations (average maturity of 1 month):					
Within 1 year	$ 11,061	$ 48	$ 14	$ 11,095	6.37%
Obligations of P.R., States and political subdivisions (average maturity of 9 years and 3 months):					
Within 1 year	35,400		13	35,387	3.76
After 1 to 5 years	13,988	170	85	14,073	7.75
After 5 to 10 years	5,960	112	179	5,893	6.72
After 10 years	63,247	196	1,329	62,114	7.21
	118,595	478	1,606	117,467	6.22
Collateralized mortgage obligations (average maturity of 13 years and 6 months):					
After 1 to 5 years	5,011	6		5,017	7.52
After 10 years	7,358	17	164	7,211	6.68
	12,369	23	164	12,228	7.02

Mortgage-backed securities (average maturity of 9 years and 6 months):					
After 1 to 5 years	64			64	10.63
After 5 to 10 years	16,679	375		17,054	7.36
After 10 years	2,001		9	1,992	6.71
	18,744	375	9	19,110	7.30
Equity securities (without contractual maturity held for regulatory purposes)	91,446			91,446	6.16
Other (average maturity of 3 years and 8 months): Within 1 year	13,276		208	13,068	5.17
After 1 to 5 years	63,357		3,116	60,241	5.22
After 5 to 10 years	27,329		1,966	25,363	5.47
	103,962		5,290	98,672	5.28
	$356,177	$ 924	$ 7,083	$350,018	6.02%

	1999 Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
			(Dollars in thousands)	
Obligations of other U.S. Government agencies and corporations				
Obligations of P.R., States and political subdivisions (average maturity of 7 years and 4 months):				
Within 1 year	$ 4,067	$ 3	$ 11	$ 4,059
After 1 to 5 years	15,199	299	47	15,451
After 5 to 10 years	5,289	136	108	5,317
After 10 years	34,224	68	397	33,895
	58,779	506	563	58,722
Collateralized mortgage obligations (average maturity of 12 years and 4 months):				
After 1 to 5 years	9,586	45		9,631
After 5 to 10 years				
After 10 years	9,344	19	70	9,293
	18,930	64	70	18,924
Mortgage-backed securities (average maturity of 9 years and 5 months):				
After 5 to 10 years	21,298	161		21,459
After 10 years	2,461			2,461
	23,759	161		23,920
Equity securities (without contractual maturity held for regulatory purposes)	89,445			89,445
Other (average maturity of 4 years and 3 months):				
Within 1 year	6,008		15	5,993
After 1 to 5 years	58,518		1,820	56,698
After 5 to 10 years	43,873		2,500	41,373
After 10 years				
	108,399		4,335	104,064
	$299,312	$ 731	$ 4,968	$295,075

The expected maturities of collateralized mortgage obligations, mortgage-backed securities and certain other securities differ from their contractual maturities because they may be subject to prepayments.

The aggregate amortized cost and approximate market value of investment securities held-to-maturity at December 31, 2000, by contractual maturity are shown below:

(In thousands)	Amortized cost	Market value
Within 1 year	$ 59,737	$ 59,550
After 1 to 5 years	82,420	79,395
After 5 to 10 years	49,968	48,310
After 10 years	72,606	71,317
Total	264,731	258,572
Without contractual maturity	91,446	91,446
Total investment securities held-to-maturity	$356,177	$350,018

During 1999, investment securities held-to-maturity with an amortized cost of $1,410,000 were called by the issuer. Proceeds from the sale of those securities were $1,435,000. Gains realized on these transactions were $25,000.

As of December 31, 2000 and 1999, the investments in obligations that are payable from and secured by the same source of revenue or taxing authority, other than the U.S. government, did not exceed 10 percent of stockholders' equity.

NOTE 6 - PLEDGED ASSETS:

At December 31, 2000 and 1999, securities and loans were pledged to secure public and trust deposits, securities sold under agreements to repurchase and other borrowings.

The classification and carrying amount of pledged assets, which the secured parties are not permitted to sell or repledge the collateral as of December 31, were as follows:

(In thousands)	2000	1999
Investment securities available-for-sale	$1,617,134	$1,559,881
Investment securities held-to-maturity	6,798	10,886
Loans	585,230	--
	$2,209,162	$1,570,767

Securities that the creditor has the right by custom or contract to repledge have been reclassified in the consolidated statements of condition.

NOTE 7 - LOANS AND ALLOWANCE FOR LOAN LOSSES:

The composition of the loan portfolio at December 31, was as follows:

(In thousands)	2000	1999
Loans secured by real estate:		
Insured or guaranteed by the U.S. Government or its agencies	$ 67,057	$ 79,926
Guaranteed by the Commonwealth of Puerto Rico	71,225	49,135
Commercial loans secured by real estate	1,499,422	1,315,135
Residential conventional mortgages	3,701,143	3,199,873
Construction and land development	308,545	257,511
Consumer	372,790	391,597
	6,020,182	5,293,177
Financial institutions	68,879	74,017
Commercial, industrial and agricultural	5,263,682	5,070,801
Lease financing	988,787	882,362
Consumer for household, credit cards and other consumer expenditures	3,113,727	3,170,266
Other	125,122	168,777
	$15,580,379	$14,659,400

As of December 31, 2000, loans on which the accrual of interest income had been discontinued amounted to $319,188,000 (1999 - $294,847,000; 1998 - $262,604,000). If these loans had been accruing interest, the additional interest income realized would have been approximately $23,129,000 (1999 - $20,428,000; 1998 - $15,258,000). In addition, there were $578,000 of renegotiated loans still accruing interest at December 31, 1998. Non-accruing loans as of December 31, 2000 include $43,814,000 (1999 - $57,515,000; 1998 - $46,626,000) in consumer loans.

The recorded investment in loans that were considered impaired at December 31, and the related disclosures follow:

	December 31,	
(In thousands)	2000	1999
Impaired loans with a related allowance	$112,503	$149,803
Impaired loans that do not require allowance	42,491	30,311
Total impaired loans	$154,994	$180,114
Allowance for impaired loans	$ 27,308	$ 51,252
Impaired loans measured based on fair value of collateral	$ 55,062	$ 87,790
Impaired loans measured based on discounted cash flows	99,932	92,324
	$154,994	$180,114
Average balance of impaired loans during the year	$175,756	$175,459
Interest income recognized on impaired loans during the year	$ 5,060	$ 9,747

The changes in the allowance for loan losses for the year ended December 31, were as follows:

(In thousands)	2000	1999	1998

Balance at beginning of year	$ 292,010	$ 267,249	$ 211,651
Net reserves (sold) acquired	(15,869)	515	31,296
Provision for loan losses	194,640	148,948	137,213
Recoveries	60,903	58,008	51,770
Loans charged-off	(241,031)	(182,710)	(164,681)
Balance at end of year	$ 290,653	$ 292,010	$ 267,249

The components of the net financing leases receivable at December 31, were:

(In thousands)	2000	1999
Total minimum lease payments	$ 820,528	$ 727,380
Estimated residual value of leased property	162,403	150,799
Deferred origination costs	5,856	4,183
Less - Unearned financing income	(172,073)	(153,718)
Net minimum lease payments	816,714	728,644
Less - Allowance for loan losses	(18,549)	(9,163)
	$ 798,165	$ 719,481

Estimated residual value is generally established at amounts expected to be sufficient to cover the Corporation's investment.

At December 31, 2000, future minimum lease payments are expected to be received as follows:

(In thousands)	
2001	$297,583
2002	231,165
2003	160,735
2004	96,255
2005 and thereafter	34,790
	$820,528

NOTE 8 - RELATED PARTY TRANSACTIONS:

The Corporation grants loans to its directors, executive officers and to certain related individuals or organizations in the ordinary course of business. The movement and balance of these loans were as follows:

(In thousands)	Executive Officers	Directors	Total
Balance at December 31, 1998	$ 3,066	$ 169,926	$ 172,992
New loans	482	331,883	332,365
Payments	(475)	(302,299)	(302,774)
Balance at December 31, 1999	$ 3,073	$ 199,510	$ 202,583
New loans	1,778	227,886	229,664
Payments	(997)	(260,576)	(261,573)
Balance at December 31, 2000	$ 3,854	$ 166,820	$ 170,674

These loans have been consummated on terms no more favorable than those that would have been obtained if the transaction had been with unrelated parties.

NOTE 9 - PREMISES AND EQUIPMENT:

Premises and equipment are stated at cost less accumulated depreciation and amortization as follows:

(In thousands)	Useful life in years	2000	1999
Land		$ 58,596	$ 61,265
Buildings	15-50	238,098	246,060
Equipment	2-10	443,816	424,341
Leasehold improvements	Various	73,092	69,746
		755,006	740,147
Less - Accumulated depreciation and amortization		418,057	380,788
		336,949	359,359
Construction in progress		10,227	20,347
		$405,772	$440,971

Depreciation and amortization of premises and equipment for the year was $76,848,000 (1999 - $71,320,000; 1998 - $62,649,000) of which $13,805,000 (1999 - $13,285,000; 1998 - $10,478,000) was charged to occupancy expense and $63,043,000 (1999 - $58,035,000; 1998 - $52,171,000) was charged to equipment, communications and other operating expenses. Occupancy expense is net of rental income of $9,878,000 (1999 - $9,937,000; 1998 - $9,187,000).

NOTE 10 - DEPOSITS:

Total interest bearing deposits as of December 31, consisted of:

(In thousands)	2000	1999
Savings deposits:		
Savings accounts	$ 4,075,563	$ 4,093,788
NOW and money market accounts	1,877,329	1,650,747
	5,952,892	5,744,535
Certificates of deposit:		
Under $100,000	3,115,587	2,748,499
$100,000 and over	2,626,543	2,395,732
	5,742,130	5,144,231
	$11,695,022	$10,888,766

A summary of certificates of deposit by maturity as of December 31, 2000, follows:

(In thousands)	
2001	$4,303,731
2002	703,627
2003	166,453
2004	219,446
2005	243,793
2006 and thereafter	105,080
	$5,742,130

At December 31, 2000, the Corporation had brokered certificates of deposit amounting to $458,235,000 (1999 - $154,151,000).

NOTE 11 - FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE:

The following table summarizes certain information on federal funds purchased and securities sold under agreements to repurchase as of December 31:

(In thousands)	2000	1999	1998
Federal funds purchased	$ 687,914	$ 28,039	$ 918,555
Securities sold under agreements to repurchase	4,276,201	4,386,441	3,157,945
Total amount outstanding	$4,964,115	$4,414,480	$4,076,500
Maximum aggregate balance outstanding at any month-end	$5,236,644	$4,414,480	$4,076,500
Average monthly aggregate balance outstanding	$4,585,945	$3,831,131	$3,166,436
Weighted average interest rate:			
For the year	6.22%	5.02%	4.96%
At December 31	6.74	5.75	4.50

The following table presents the liability associated with the repurchase transactions (including accrued interest), its maturities and weighted average interest rates. Also, it includes the amortized cost and approximate market value of the collateral (including accrued interest) as of December 31, 2000 and 1999. The information excludes repurchase agreement transactions which were collateralized with securities or other assets held for trading purposes or which have been obtained under resell agreements:

	2000			
	Repurchase Liability	Amortized Cost of collateral	Market Value of collateral	Weighted average interest rate
	(Dollars in thousands)			
U.S. Treasury securities				
Overnight	$ 6,725	$ 7,065	$ 7,060	6.45%
Within 30 days	675,160	673,655	677,361	6.46
After 90 days	258,063	267,309	268,755	6.36
Total	939,948	948,029	953,176	6.43
Obligations of other U.S. Government agencies and corporations				
Overnight	300	301	303	4.50
Within 30 days	862,583	843,568	846,280	6.14
After 30 to 90 days	778,467	813,154	808,168	7.59
After 90 days	220,241	225,122	228,160	6.60
Total	1,861,591	1,882,145	1,882,911	6.82
Mortgage - backed securities				
Overnight	1,500	1,510	1,499	3.62
Within 30 days	86,817	91,662	90,142	6.53
After 30 to 90 days	52,590	56,707	55,449	6.37
Total	140,907	149,879	147,090	6.44
Collateralized mortgage obligations				
Overnight	21,032	19,749	19,700	3.62
Within 30 days	246,520	258,102	258,857	6.61
After 30 to 90 days	76,954	82,426	83,115	6.57
After 90 days	41,890	45,494	45,452	6.85
	386,396	405,771	407,124	6.47
	$3,328,842	$3,385,824	$3,390,301	6.65%

	1999			
	Repurchase Liability	Amortized Cost of collateral	Market Value of collateral	Weighted average interest rate
	(Dollars in thousands)			
U.S. Treasury securities				
Within 30 days	$ 909,376	$ 917,318	$ 911,089	5.62%
After 30 to 90 days	402,264	407,169	404,123	5.39
After 90 days	424,379	435,166	436,836	6.06
Total	1,736,019	1,759,653	1,752,048	5.67
Obligations of other U.S. Government agencies and corporations				
Overnight	40,009	40,091	38,336	4.65
Within 30 days	1,067,672	1,131,220	1,068,111	5.75
After 30 to 90 days	196,265	205,454	203,638	5.40
After 90 days	20,264	22,458	22,103	5.10

Total	1,324,210	1,399,223	1,332,188	5.65
Mortgage - backed securities				
Within 30 days	39,951	43,151	42,948	5.83
After 30 to 90 days	26,849	29,228	29,027	6.04
Total	66,800	72,379	71,975	5.91
Collateralized mortgage obligations				
Overnight	14,328	22,348	22,348	5.20
Within 30 days	200,159	219,717	213,477	5.52
After 30 to 90 days	152,124	173,984	173,408	5.81
After 90 days	49,317	50,776	48,976	5.55
Total	415,928	466,825	458,209	5.62
	$3,542,957	$3,698,080	$3,614,420	5.66%

NOTE 12 - OTHER SHORT-TERM BORROWINGS:

Other short-term borrowings as of December 31, consisted of:

(Dollars in thousands)	2000	1999
Advances under revolving lines of credit		
- with fixed interest rates ranging from 6.65% to 7.11% at December 31, 2000 (1999 - 5.25% to 5.98%)	$ 595,000	$ 420,500
- with floating interest rate of 0.10% under the 3-month LIBOR (3-month LIBOR rate at December 31, 2000 was 6.40%)	50,000	
Commercial paper at rates ranging from 5.75% to 7.00% (1999 - 4.50% to 7.00%)	360,427	257,705
Term notes paying interest quarterly at floating interest rates of 0.10% (1999 - 0.05% to 0.46%) over the 3-month LIBOR rate (3-month LIBOR rate at December 31, 2000 was 6.40%; 1999 - 6.00%)	253,000	241,062
Term notes paying interest quarterly at floating interest rates of 94% to 100% of LIBID rate (LIBID rate at December 31, 2000 was 6.25%)	30,000	
Term notes paying interest monthly at rates ranging from 6.25% to 6.77% (1999 - 6.25%)	134,527	32,828
Term notes paying interest semiannually at rates ranging from 5.63% to 7.38% (1999 - 5.50% to 7.72%)	857,197	343,659
Term funds purchased at rates ranging from 6.54% to 7.11% (1999 - 5.15% to 6.52%)	2,082,972	1,242,336
Others	6,089	74,299
	$4,369,212	$2,612,389

The weighted average interest rate of other short-term borrowings at December 31, 2000 was 6.74% (1999 - 5.75%; 1998 - 6.39%). The maximum aggregate balance outstanding at any month-end was approximately $4,369,212,000 (1999 - $2,714,549,000; 1998 - $1,908,541,000). The average aggregate balance outstanding during the year was approximately $3,346,151,000 (1999 - $2,197,118,000; 1998 - $1,675,568,000). The weighted average interest rate during the year was 6.65% (1999 - 5.69%; 1998 - 5.65%).

At December 31, 2000, the Corporation had $1,200,000,000 in available lines of credit with the Federal Home Loan Bank (1999 - $1,000,000,000), of which $885,000,000 remained unused at the end of 2000 (1999 - $750,000,000). The FHLB advances are secured by securities and mortgage loans under a collateral agreement. The Corporation also had available $1,290,000,000 in other lines of credit (1999 - $965,000,000) of which $835,000,000 remained unused at the end of 2000 (1999 - $794,500,000). These lines included a warehouse line facility of $500,000,000 at December 31, 2000, which advances are secured by mortgage loans.

NOTE 13 - NOTES PAYABLE:

Notes payable outstanding at December 31, consisted of the following:

(Dollars in thousands)	2000	1999
Advances under revolving lines of credit		
- maturing in 2002, paying interest monthly at a fixed rate of 6.88%	$ 50,000	
- maturing in 2002, paying interest quarterly at		

a floating interest rate of 0.10% under the 3-month LIBOR (3-month LIBOR rate at December 31, 2000 was 6.40%)	75,000	
Term notes with maturities ranging from 2002 through 2008 paying interest semiannually at fixed rates ranging from 5.63% to 8.13% (1999 - 5.63% to 7.43%)	612,596	$1,466,820
Term notes maturing in 2002 paying interest quarterly at rates ranging from 0.24% to 0.25% over the 3-month LIBOR rate (3-month LIBOR rate at December 31, 2000 was 6.40%)	50,000	
Term notes with maturities ranging from 2002 through 2030 paying interest monthly at fixed rates ranging from 5.01% to 7.62%	163,300	97,405
Promissory notes with maturities ranging from 2002 through 2005 with floating interest rates ranging from 85% to 92% of the 3-month LIBID rate (LIBID rate at December 31, 2000 was 6.25%; 1999 - 5.875%)	210,000	240,000
Promissory notes with maturities until 2003 paying interest at a fixed rate of 6.35%	8,400	8,400
Mortgage notes and other debt	7,616	39,974
	$1,176,912	$1,852,599

NOTE 14 - SUBORDINATED NOTES:

Subordinated notes at December 31, 2000 and 1999, consisted of $125,000,000 issued by the Corporation on December 12, 1995, maturing on December 15, 2005, with interest payable semiannually at 6.75%. The notes issued by the Corporation are unsecured obligations which are subordinated in right of payment to the prior payment in full of all present and future senior indebtedness of the Corporation. These notes do not provide for any sinking fund.

NOTE 15 - PREFERRED BENEFICIAL INTEREST IN POPULAR NORTH AMERICA'S JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES GUARANTEED BY THE CORPORATION:

On February 5, 1997, BanPonce Trust I (BPT), a wholly-owned subsidiary of Popular North America, issued $150,000,000 of 8.327% Capital Securities Series A due in 2027. The Capital Securities of BPT are fully and unconditionally guaranteed by the Corporation. Additionally, the Capital Securities qualify for inclusion in Tier I capital under the Risk-Based Capital guidelines.

NOTE 16 - LONG-TERM DEBT MATURITY REQUIREMENTS:

The aggregate amounts of maturities of notes payable, capital securities and subordinated notes were as follows:

Year	Notes payable	Capital Securities	Subordinated notes	Total
		(In thousands)		
2002	$ 499,613			$ 499,613
2003	201,945			201,945
2004	254,760			254,760
2005	165,953		$125,000	290,953
Later years	54,641	$150,000		204,641
Total	$1,176,912	$150,000	$125,000	$1,451,912

NOTE 17 - PREFERRED STOCK OF BPPR:

BPPR has 200,000 shares of authorized preferred stock with a par value of $100. This stock may be issued in series, and the shares of each series shall have such rights and preferences as shall be fixed by the Board of Directors when authorizing the issuance of that particular series. At December 31, 2000, there are no such shares issued or outstanding.

NOTE 18 - STOCKHOLDERS' EQUITY:

The Corporation has 180,000,000 shares of authorized common stock with par value of $6 per share. At December 31, 2000, there were 138,392,822 (1999 - 137,943,619) shares issued and 135,998,617 shares outstanding (1999 - 135,654,292). As of December 31, 2000, the Corporation had 2,394,205 shares (1999 - 2,289,327) in treasury stock at a total cost of $66,214,000 (1999 - $64,123,000).

The Corporation has a dividend reinvestment plan under which stockholders may reinvest their quarterly dividends in shares of common stock at a 5% discount from the market price at the time of issuance. During 2000, shares totaling 449,203 (1999 - 328,693; 1998 - 271,918), equivalent to $9,823,000 (1999 - $9,387,000; 1998 - $7,433,000) in additional equity, were issued under the plan.

The Corporation has 10,000,000 shares of authorized preferred stock with no par value. This stock may be issued in one or more series, and the shares of each series shall have such rights and preferences as shall be fixed by the Board of Directors when authorizing the issuance of that particular series. The Corporation has 4,000,000 shares issued and outstanding of Series A preferred stock. These shares are non-convertible and are redeemable at the option of the Corporation. The redemption price per share is $25.75 through June 29, 2001, $25.50 from June 30, 2001 through June 29, 2002 and $25.00 from June 30, 2002 and thereafter. Dividends on the Series A preferred stock are noncumulative and are payable monthly at the annual rate of 8.35% of the liquidation preference of $25.00 per share.

The Corporation's average number of common shares outstanding used in the computation of net income per common share was 135,907,476 (1999 - 135,585,634; 1998 - 135,532,086). During the year, cash dividends of $0.64 (1999
- $0.60; 1998 - $0.50) per common share outstanding amounting to $86,972,000 (1999 - $81,388,000; 1998 - $67,770,000) were declared. In addition, dividends declared on preferred stock amounted to $8,350,000 (1999

- $8,350,000; 1998 - $8,350,000).

NOTE 19 - REGULATORY CAPITAL REQUIREMENTS:

The Corporation is subject to various regulatory capital requirements imposed by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation must meet specific capital guidelines that involve quantitative measures of the Corporation's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory requirements. The Corporation's capital amounts and classifications are also subject to qualitative judgements by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation to maintain minimum amounts and ratios of Tier I and total capital to risk-weighted assets, and of Tier I capital to average assets (leverage ratio) as defined in the regulations. Management has determined that as of December 31, 2000, the Corporation exceeded all capital adequacy requirements to which it is subject.

As of December 31, 2000, BPPR and BPNA were well capitalized under the regulatory framework for prompt corrective action and there are no conditions or events since that date that management believes have changed the institution's category. The 1999 ratios of

Tier I and total capital to risk-weighted assets, and of Tier I capital to average assets for BPNA were restated to reflect the merger of Banco Popular N.A. (Texas) into BPNA effected on January 1, 2000. The information for BPPR is presented on a consolidated basis.

The Corporation's actual and required ratios and amounts of total risk-based capital, Tier I risk-based capital and Tier I leverage, as of December 31, were as follows:

(Dollars in thousands)	Actual		Regulatory requirements: For capital adequacy purposes		To b capi unde correct pro
	Amount	Ratio	Amount	Ratio	Amount
			2000		
Total Capital (to Risk-Weighted Assets):					
Consolidated	$2,062,631	12.37%	$1,333,579	8%	N/A
BPPR	1,318,126	11.89	886,883	8	$1,108,604
BPNA	408,362	10.85	301,047	8	376,309
Tier I Capital (to Risk-Weighted Assets):					
Consolidated	$1,741,004	10.44%	$ 666,790	4%	N/A
BPPR	1,178,736	10.63	443,442	4	$ 665,163
BPNA	361,115	9.60	150,524	4	225,785
Tier I Capital (to Average Assets):					
Consolidated	$1,741,004	6.40%	$ 816,030	3%	N/A
BPPR	1,178,736	6.34	557,405	3	$ 929,009
BPNA	361,115	7.35	147,440	3	245,734

(Dollars in thousands)	Actual		Regulatory requirements: For capital adequacy purposes		To b capi unde correct pro
	Amount	Ratio	Amount	Ratio	Amount
			1999		
Total Capital (to Risk-Weighted Assets):					
Consolidated	$1,881,615	12.29%	$1,224,601	8%	N/A
BPPR	1,135,435	11.26	806,660	8	$1,008,325
BPNA	356,748	10.39	274,622	8	343,277
Tier I Capital (to Risk-Weighted Assets):					
Consolidated	$1,557,096	10.17%	$ 612,300	4%	N/A
BPPR	1,008,627	10.00	403,330	4	$ 604,995
BPNA	313,664	9.14	137,311	4	205,966
Tier I Capital (to Average Assets):					
Consolidated	$1,557,096	6.40%	$ 729,523	3%	N/A
BPPR	1,008,627	5.74	527,113	3	$ 878,521
BPNA	313,664	7.01	134,266	3	223,777

NOTE 20 - SERVICING ASSETS:

The changes in servicing assets for the years ended December 31, were as follows:

(In thousands)	2000	1999	1998
Balance at beginning of year	$ 33,866	$ 29,678	$ 29,787
Rights originated	14,404	11,072	5,439
Rights purchased	697	632	1,069
Amortization	(8,851)	(7,516)	(6,617)
Balance at end of year	40,116	33,866	29,678
Less: Valuation allowance	562	14	11
Balance at end of year, net of valuation allowance	$ 39,554	$ 33,852	$ 29,667

Total loans serviced for others were $4,867,348,000 at December 31, 2000 (1999 - $4,007,345,000). The estimated fair value of capitalized servicing rights were $52,671,000 at December 31, 2000 (1999 - $44,466,000).

The activity in the valuation allowance for impairment of recognized servicing assets for the years ended December 31, were as follows:

(In thousands)	2000	1999	1998
Balance at beginning of year	$ 14	$11	$14
Additions charged to operations	548	3	
Reductions credited to operations			(3)
Balance at end of year	$ 562	$14	$11

NOTE 21 - SALES OF RECEIVABLES:

During the year ended December 31, 2000, the Corporation retained servicing responsibilities and other subordinated interests on various securitization transactions and whole loan sales of residential mortgage loans.

The Corporation retained servicing responsibilities and other subordinated interests in the form of interest-only securities in a securitization transaction involving a qualifying SPE at the end of the year. The investors and the securitization trust have no recourse to the Corporation's other assets for failure of debtors to pay when due. The Corporation's retained interests are subordinated to the investors' interests. For the year 2000, the Corporation recognized pretax gains of $6,409,000 on this securitization transaction. Proceeds received from the SPE amounted to $190,107,000 on this new securitization.

In the course of certain residential mortgage whole loan sales in 2000, the Corporation retained subordinated interests, including retained servicing responsibilities or interest only securities. The retained interests are subject to prepayment, credit and interest rate risks on the transferred financial assets. During 2000, the Corporation also retained servicing assets on residential mortgage loans securitized

in the form of trading and investment securities. Pretax gains of $22,865,000 were realized on these securitization transactions and the whole loan sales involving retained interests, which took place in 2000.

The Corporation receives average annual servicing fees based on a percentage of the outstanding loan balance. Those average fees are ranging from 0.35 to 0.50 percent for mortgage loans and 1.0 percent for loans guaranteed by Small Business Administration (SBA) loans.

Valuation methodologies used in determining the fair value of the retained interests, including servicing assets and interest-only securities, are disclosed in Note 1 of the consolidated financial statements.

Key economic assumptions used in measuring the retained interests at the date of the securitization and whole loan sales completed during the year ended December 31, 2000, were as follows:

	Residential Mortgage Loans
Prepayment speed	8.7 - 18.0%
Weighted average life (in years)	13.6 - 18.1
Expected credit losses	0.0 - 0.40%
Discount rate	11.0 - 14.0%

At December 31, 2000, key economic assumptions and the sensitivity of the current value of residual cash flows to immediate 10 percent and 20 percent adverse changes in those assumptions for retained interests as of the end of the year are as follows:

(Dollars in thousands)	Residential Mortgage Loans	SBA Loans
Carrying amount of retained interests	$ 65,100	$ 717
Fair value of retained interests	78,217	717
Weighted average life (in years)	14.1 - 14.5	10.7
Prepayment Speed Assumption (annual rate)	11.7 - 19.3%	21%
Impact on fair value of 10% adverse change	$ (2,506)	$ (57)
Impact on fair value of 20% adverse change	(4,834)	(109)
Expected Credit Losses (annual rate)	0.0 - 0.34%	--
Impact on fair value of 10% adverse change	$ (478)	--
Impact on fair value of 20% adverse change	(953)	--
Discount rate (annual rate)	11.0 - 12.9%	10.0%
Impact on fair value of 10% adverse change	$ (3,355)	$ (15)
Impact on fair value of 20% adverse change	(7,363)	(30)

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities.

The expected credit losses for the residential mortgage loans securitized / sold during the year ended December 31, 2000, are estimated at rates ranging from 0.0% to 0.40% for 2001 and 2002. No credit losses are anticipated on the retained servicing assets derived from the sale of SBA loans which took place in 1999 since the participation sold is fully guaranteed by SBA.

Quantitative information about delinquencies, net credit losses, and components of securitized financial assets and other assets managed together with them by the Corporation for the year ended December 31, 2000, follows:

Total Principal Principal Amount

(In thousands)	Amount of Loans, net of unearned	60 days of more past due	Net Credit Losses
Loans (owned and managed):			
Commercial	$ 7,303,525	$172,857	$ 56,369
Lease financing	816,714	18,036	14,459
Mortgage	6,054,471	213,155	5,162
Consumer	3,324,694	90,131	104,402
Less:			
Loans securitized / sold	(1,442,319)		
Loans held-for-sale	(823,901)		
Loans held in portfolio	$ 15,233,184	$494,179	$180,392

NOTE 22 - INTEREST ON INVESTMENTS:

Interest on investments for the year ended December 31, consisted of the following:

(In thousands)	2000	1999	1998
Money market investments:			
Federal funds sold and securities purchased under agreements to resell	$ 61,238	$ 32,049	$ 34,505
Time deposits with other banks	1,062	1,380	2,199
Other	56	5	77
	$ 62,356	$ 33,434	$ 36,781
Investment securities:			
U.S. Treasury securities	$110,655	$146,014	$193,293
Obligations of other U.S. Government agencies and corporations	233,116	162,280	90,141
Obligations of Puerto Rico, States and political subdivisions	7,834	7,562	8,378
Collateralized mortgage obligations	90,847	70,891	47,321
Mortgage-backed securities	32,330	26,368	34,654
Other	11,416	12,792	11,686
	$486,198	$425,907	$385,473

Interest income on investment securities for the year ended December 31, 2000, includes tax exempt interest of $353,920,000 (1999 - $330,411,000; 1998 - $301,364,000). Exempt interest relates mostly to obligations of the United States and Puerto Rico governments.

NOTE 23 - EMPLOYEE BENEFITS:

Pension and benefit restoration plans

All regular employees of BPPR and BPNA are covered by a noncontributory defined benefit pension plan. Pension benefits begin to vest after five years of service and are based on age, years of credited service and final average compensation, as defined. At December 31, 2000, plan assets consisted primarily of U.S. Government obligations, high grade corporate bonds and listed stocks, including 5,672,860 shares (1999 - 5,672,860) of the Corporation with a market value of approximately $149,264,000 (1999 - $158,486,000). Dividends paid on shares of the Corporation held by the plan during 2000 amounted to $3,631,000 (1999 - $3,290,000).

BPPR and BPNA also have a non-qualified unfunded supplementary pension and profit sharing plans for those employees whose compensation exceeds the limits established by ERISA.

The following table sets forth the aggregate status of the plans and the amounts recognized in the consolidated financial statements at December 31:

	Pension Plan	Benefit Restoration Plan	Total
		2000 (In thousands)	
Change in benefit obligation:			
Benefit obligation at beginning of the year	$ 306,244	$ 7,479	$ 313,723
Service cost	9,468	580	10,048
Interest cost	21,369	717	22,086
Plan amendment			
Actuarial (gain) loss	(2,732)	2,597	(135)
Benefits paid	(14,800)	(14)	(14,814)
Benefit obligation at end of year	319,549	11,359	330,908
Change in plan assets:			
Fair value of plan assets at beginning of the year	438,038		438,038
Actual return on plan assets	2,189		2,189
Employer contributions	1,505		1,505
Benefits paid	(14,800)		(14,800)
Fair value of plan assets at end of year	426,932		426,932
Funded (unfunded) status	107,383	(11,359)	96,024
Unrecognized net asset	(10,704)		(10,704)
Unrecognized net prior service cost	5,726	411	6,137
Unrecognized net actuarial (gain) loss	(68,838)	5,133	(63,705)
Prepaid (accrued) pension cost	33,567	(5,815)	27,752
Amount recognized in the statement of financial position consists of:			
Prepaid benefit cost	34,228		34,228
Accrued benefit liability	(661)	(6,226)	(6,887)
Intangible assets		411	411
Net amount recognized	$ 33,567	$ (5,815)	$ 27,752

	Pension Plan	Benefit Restoration Plan	Total

		1999	
		(In thousands)	
Change in benefit obligation:			
Benefit obligation at beginning of year	$ 332,193	$ 5,913	$ 338,106
Service cost	13,633	716	14,349
Interest cost	21,084	510	21,594
Plan amendment	7,995		7,995
Actuarial (gain) loss	(55,445)	352	(55,093)
Benefits paid	(13,216)	(12)	(13,228)
Benefit obligations at end of year	306,244	7,479	313,723
Change in plan assets:			
Fair value of plan assets at beginning of year	447,374		447,374
Actual return on plan assets	3,880		3,880
Benefits paid	(13,216)		(13,216)
Fair value of plan assets at end of year	438,038		438,038
Funded (unfunded) status	131,794	(7,479)	124,315
Unrecognized net asset	(13,165)		(13,165)
Unrecognized net prior service cost	6,181	464	6,645
Unrecognized net actuarial (gain) loss	(108,142)	2,859	(105,283)
Prepaid (accrued) pension cost	16,668	(4,156)	12,512
Amount recognized in the statement of financial position consists of:			
Prepaid benefit cost	17,949		17,949
Accrued benefit liability	(1,281)	(4,344)	(5,625)
Intangible assets		188	188
Net amount recognized	$ 16,668	$ (4,156)	$ 12,512

Weighted average assumptions as of December 31:	Pension Plan			Benefit Restoration Pl	
	2000	1999	1998	2000	1999
Discount rate	7.25%	7.75%	6.50%	7.25%	7.75%
Expected return on plan assets	8.50%	9.00%	9.00%		
Rate of compensation increase	3.5 to 7.5%	4.5 to 8.5%	4.5 to 8.5%	3.5 to 7.5%	4.5 to 8.5%

	Pension Plan 2000	Pension Plan 1999	Pension Plan 1998	Benefit Restoration Plan 2000	Benefit Restoration Plan 1999	Benefit Restoration Plan 1998
	(In thousands)					
Components of net periodic pension cost:						
Service cost	$ 9,468	$ 13,633	$ 12,360	$ 580	$ 716	$ 438
Interest cost	21,369	21,084	19,926	717	510	330
Expected return on plan assets	(36,646)	(39,723)	(32,618)			
Amortization of asset obligation	(2,461)	(2,461)	(2,461)			
Amortization of prior service cost (benefit)	455	(239)	(242)	53	53	53
Amortization of net (gain) loss	(7,578)	(4,848)	(2,032)	323	391	209
Net periodic (benefit) cost	$(15,393)	$(12,554)	$ (5,067)	$1,673	$1,670	$1,030

Retirement and savings plan

The Corporation also provides contributory retirement and savings plans pursuant to sections 1165 (e) of the Puerto Rico Internal Revenue Code and section 401 (k) of the Internal U.S. Revenue Code, as applicable, for substantially all the employees of Popular Securities, Equity One, Banco Popular North America, Popular Finance, Popular Leasing, Popular Insurance, Popular Mortgage, GM Group and Popular Cash Express. Employer contributions are determined based on specific provisions of each plan. The cost of providing this benefit in 2000 was $5,444,000 (1999 - $5,256,000; 1998 - $3,369,000).

The Corporation also has a contributory savings plan available to employees of BPPR. Employees are fully vested in the employer's contribution after seven years of service. All contributions are invested in shares of the Corporation. Total savings plan expense was $988,000 in 2000 (1999 - $1,005,000; 1998 - $1,105,000). The savings plan held 1,590,695 (1999 - 1,334,433; 1998 - 1,303,398) shares of common stock of the Corporation with a market value of approximately $41,855,000 at December 31, 2000 (1999 - $37,281,000; 1998 - $44,316,000).

Postretirement health care benefits

In addition to providing pension benefits, BPPR provides certain health care benefits for retired employees. Substantially all of the employees of BPPR who are eligible to retire under the pension plan, and provided they reach retirement age while working for BPPR, may become eligible for these benefits.

The status of the Corporation's unfunded postretirement benefit plan at December 31, was as follows:

(In thousands)	2000	1999
Change in benefit obligation:		
Benefit obligation at beginning of the year	$ 98,186	$ 101,286
Service cost	2,455	5,395
Interest cost	6,212	7,007
Plan amendment	(12,530)	(180)
Benefits paid	(4,127)	(2,921)
Actuarial loss (gain)	711	(12,401)
Benefit obligation at end of year	$ 90,907	$ 98,186
Change in plan assets:		
Unfunded status	$ (90,907)	$ (98,186)
Unrecognized net prior service (benefit) cost	(8,574)	3,260

Unrecognized net actuarial loss	5,590	4,879
Accrued benefit cost	$ (93,891)	$ (90,047)

The weighted average discount rate used in determining the accumulated postretirement benefit obligation at December 31, 2000 was 7.25% (1999 - 7.75%).

The components of net periodic postretirement benefit cost for the year ended December 31, were as follows:

(In thousands)	2000	1999	1998
Service cost	$ 2,455	$ 5,395	$ 4,731
Interest cost	6,212	7,007	6,016
Amortization of prior service (benefit) cost	(696)	366	450
Amortization of net loss	1,270	206	
Net periodic benefit cost	$ 7,971	$ 14,038	$ 11,403

For measurement purposes, a 6% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease gradually to 5% for 2001 and remain at that level thereafter. In February 2000, the Corporation adopted a plan amendment affecting only those employees retiring after February 1, 2001. The amendments provide that the Corporation's assumed cost will be capped to 3% of the annual health care cost increase.

Assumed health care trend rates generally have a significant effect on the amounts reported for a health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total service cost and interest cost components	$ 389,000	$ (326,000)
Effect on postretirement benefit obligation	$ 3,882,000	$ (3,354,000)

Profit sharing plan

BPPR also has a profit sharing plan covering substantially all regular employees. Annual contributions are determined based on the bank's profitability ratios, as defined in the plan, and are deposited in trust. Profit sharing expense for the year, including the cash portion paid annually to employees which represented 50% of the expense, amounted to $18,234,000 (1999 - $23,561,000; 1998 - $22,647,000).

Long-term incentive plan

BPPR has a long-term incentive plan for its senior management, which was amended in 1999. Based on the provisions of the new plan, the incentive is determined based on the performance of the Corporation's stock compared to the combined performance of the S&P 500 Index, S&P Financial Index and the S&P Banks Index during the three-year period of the plan. The incentive is awarded in shares of the Corporation, which are purchased in the open market.

For the year ended December 31, 2000, the Corporation recognized an expense of $96,000 (1999 - $168,000; 1998 - $626,000) related to this plan.

NOTE 24 - RENTAL EXPENSE AND COMMITMENTS:

At December 31, 2000, the Corporation was obligated under a number of noncancelable leases for land, buildings, and equipment which require rentals (net of related sublease rentals) as follows:

Year	Minimum payments	Sublease rentals	Net
		(In thousands)	
2001	$ 29,701	$ 823	$ 28,878
2002	23,584	576	23,008
2003	20,082	361	19,721
2004	16,688	161	16,527
2005	13,132	149	12,983
Later years	68,046	256	67,790
	$171,233	$ 2,326	$168,907

Total rental expense for the year ended December 31, 2000, was $39,331,000 (1999 - $32,909,000; 1998 - $26,451,000).

NOTE 25 - INCOME TAX:

The components of income tax expense for the years ended December 31, are summarized below. Included in these amounts are income taxes of $2,490,000 in 2000 (1999 - $270,000; 1998 - $1,606,000), related to gains on securities transactions.

(In thousands)	2000	1999	1998
Current income tax expense:			
Puerto Rico	$ 93,352	$ 92,177	$ 94,913
Federal and States	17,622	9,399	8,914
Subtotal	110,974	101,576	103,827
Deferred income tax benefit:			
Puerto Rico	(7,577)	(14,378)	(27,231)
Federal and States	(2,600)	(2,078)	(1,925)
Subtotal	(10,177)	(16,456)	(29,156)
Total income tax expense	$ 100,797	$ 85,120	$ 74,671

The reasons for the difference between the income tax expense applicable to income before provision for income taxes and the amount computed by applying the statutory rate in Puerto Rico, were as follows:

	2000		1999		1998	
(Dollars in thousands)	Amount	%of pre-tax Income	Amount	%of pre-tax Income	Amount	% pre Inc
Computed income tax at statutory rates	$ 146,542	39%	$ 132,687	39%	$ 119,609	
Benefits of net tax exempt interest income	(46,164)	(12)	(54,405)	(16)	(47,432)	
Federal, States taxes and other	419	6,838	2	2,494		
Income tax expense	$ 100,797	27%	$ 85,120	25%	$ 74,671	

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Significant components of the Corporation's deferred tax assets and liabilities at December 31, were as follows:

(In thousands)	2000	1999
Deferred tax assets:		
Alternative minimum tax credits available for carryforward and other credits	$ 16,034	$ 18,047
Net operating loss carryforward available	1,377	6,287
Postretirement and pension benefits	25,497	29,625
Allowance for loan losses	113,899	104,231
Unrealized loss on securities available-for-sale		35,993
Other temporary differences	15,970	31,857
Total gross deferred tax assets	172,777	226,040
Deferred tax liabilities:		
Differences between the assigned values and the tax bases of assets and liabilities recognized in purchase business combinations	1,635	7,552
Unrealized gain on securities available-for-sale	1,683	
Other temporary differences	14,066	11,511
Total gross deferred tax liabilities	17,384	19,063
Valuation allowance	713	713
Net deferred tax asset	$ 154,680	$ 206,264

At December 31, 2000, the Corporation had $16,034,000 in credits expiring in annual installments through year 2016 that will reduce the regular income tax liability in future years. The Corporation had, at the end of 2000, $3,748,877 in net operating losses (NOL) available to carry over to offset taxable income in future years until year 2002. Other temporary differences included as deferred assets are mainly related to the deferral of loan origination costs and commissions.

A valuation allowance of $713,000 is reflected in 2000 and 1999, related to deferred tax assets arising from temporary differences for which the Corporation could not determine the likelihood of its realizability. Based on the information available, the Corporation expects to fully realize all other items comprising the net deferred tax asset as of December 31, 2000.

Under the Puerto Rico Internal Revenue Code, the Corporation and its subsidiaries are treated as separate taxable entities and are not entitled to file consolidated tax returns. The Code provides a dividend received deduction of 100%, on dividends received from "controlled" subsidiaries subject to taxation in Puerto Rico.

The Corporation has never received any dividend payments from its U.S. subsidiaries. Any such dividend paid from a U.S. subsidiary to the Corporation would be subject to a 30% withholding tax based on the provisions of the U.S. Internal Revenue Code. The Corporation has not recorded any deferred tax liability on the unremitted earnings of its U.S. subsidiaries because the reinvestment of such earnings is considered permanent. The Corporation believes that the likelihood of receiving dividend payments from any of its U.S. subsidiaries in the foreseeable future is remote based on the significant expansion it is undertaking in the U.S. mainland.

The Corporation's subsidiaries in the United States file a consolidated federal income tax return. The Corporation's federal income tax provision for 2000 was $14,636,000 (1999 - $7,048,000; 1998 - $5,054,000). The intercompany settlements of taxes paid is based on tax sharing agreements which generally allocates taxes to each entity based on a separate return basis.

NOTE 26 - OFF-BALANCE SHEET LENDING ACTIVITIES AND CONCENTRATION OF CREDIT RISK:

Off-balance sheet risk

The Corporation is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financial needs of its customers. These financial instruments include loan commitments, letters of credit, and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of condition.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit and financial guarantees written is represented by the contractual notional amounts of those instruments. The Corporation uses the same credit policies in making these commitments and conditional obligations as it does for those reflected on the statements of condition.

Financial instruments with off-balance sheet credit risk at December 31, whose contract amounts represent potential credit risk were as follows:

(In thousands)	2000	1999
Commitments to extend credit:		
Credit card lines	$1,787,601	$2,064,785
Commercial lines of credit	2,465,540	2,093,470
Other unused commitments	275,656	180,804
Commercial letters of credit	13,962	22,926
Standby letters of credit	103,705	62,022
Commitments to purchase mortgage loans	100,000	100,000
Commitments to originate mortgage loans		20,014
Other commitments		3,000

Commitments to extend credit

Contractual commitments to extend credit are legally binding agreements to lend money to customers at predetermined interest rates for a specified period of time. To extend credit the Corporation evaluates each customer's creditworthiness. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include cash, accounts receivable, inventory, property, plant and equipment and investment securities, among others. Since many of the loan commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Letters of credit

There are two principal types of letters of credit: commercial and standby letters of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. In most instances, cash items are held by the Corporation to collateralize these instruments.

In general, commercial letters of credit are short-term instruments used to finance a commercial contract for the shipment of goods from a seller to a buyer. This type of letter of credit ensures prompt payment to the seller in accordance with the terms of the contract. Although the commercial letter of credit is contingent upon the satisfaction of specified conditions, it represents a credit exposure if the buyer defaults on the underlying transaction.

Standby letters of credit are also issued by the Corporation to disburse funds to a third party beneficiary if the Corporation's customer fails to perform under the terms of an agreement with the beneficiary. These letters of credit are used by the customer as a credit enhancement and typically expire without being drawn upon.

Other commitments

In 2000, the Corporation entered into a commitment to purchase $100,000,000 of mortgage loans from another institution with the option of purchasing additional loans up to $175,000,000. The commitment expires on June 30, 2002. The purchased mortgage loans will continue to be serviced by the originating institution. As of December 31, 2000, no loans have been purchased under this agreement. In 1999, the Corporation entered into a similar agreement to purchase up to $175,000,000 in mortgage loans. The Corporation purchased the full amount of this commitment before the end of 2000.

In 1999, the Corporation had a remaining commitment with a third party to originate $20,014,000 in thirty-year mortgages at an unsubsidized fixed rate of 6.50%. The commitment expired during 2000.

Geographic concentration

A geographic concentration exists within the Corporation's loan portfolio since a significant portion of its business activity is with customers located in Puerto Rico. As of December 31, 2000, the Corporation had no significant concentrations of credit risk and no significant exposure to highly leveraged transactions in its loan portfolio. Note 30 provides further information on the asset composition of the Corporation by geographical area as of December 31, 2000 and 1999.

Included in total assets of Puerto Rico are investments in obligations of the U.S. Treasury and U.S. Government agencies amounting to $5.9 billion and $5.2 billion in 2000 and 1999, respectively.

NOTE 27 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS:

The fair value of financial instruments is the amount at which an asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on the type of financial instrument and relevant market information. Many of these estimates involve various assumptions and estimates, and may vary significantly from amounts that could be realized in actual transactions.

The information about the estimated fair values of financial instruments presented hereunder excludes all nonfinancial instruments and certain other specific items.

For those financial instruments with no quoted market prices available, fair value have been estimated using present value or other valuation techniques, as well as management best judgment with respect to current economic conditions, including discount rates, estimates of future cash flows and prepayment assumptions.

The fair values reflected herein have been determined based on the prevailing interest rate environment as of December 31, 2000 and 1999, respectively. In different interest rate environments, fair value estimates can differ significantly, especially for certain fixed rate financial instruments and non-accrual assets. In addition, the fair values presented do not attempt to estimate the value of the Corporation's fee generating businesses and anticipated future business activities, that is, they do not represent the Corporation's value as a going concern. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

The following methods and assumptions were used to estimate the fair values of significant financial instruments at December 31, 2000 and 1999.

Short-term financial assets and liabilities have relatively short maturities, or no defined maturities, and little or no credit risk. The carrying amounts reported in the consolidated statements of condition approximate fair value. Included in this category are: cash and due from banks, federal funds sold and securities purchased under agreements to resell, time deposits with other banks, bankers acceptances, customers' liabilities on acceptances, accrued interest receivable, federal funds purchased and securities sold under agreements to repurchase, short-term borrowings, acceptances outstanding and accrued interest payable.

Trading and investment securities are financial instruments, which regularly trade on secondary markets. The estimated fair value of these securities was determined using either market prices or dealer quotes, where

available, or quoted market prices of financial instruments with similar characteristics. Trading account securities and securities available-for-sale are reported at their respective fair values in the consolidated statements of condition since they are marked-to market for accounting purposes. These instruments are detailed in the consolidated statements of condition and in Notes 4, 5 and 28.

The estimated fair value for loans held-for-sale is based on secondary market prices. The fair values of the loan portfolio have been determined for group of loans with similar characteristics. Loans were segregated by type such as commercial, construction, residential mortgage, consumer and credit cards. Each loan category was further segmented based on loan characteristics, including repricing term and pricing. The fair value of most fixed-rate loans was estimated by discounting scheduled cash flows using interest rates currently being offered on loans with similar terms. For variable rate loans with frequent repricing terms, fair values were based on carrying values. The fair values for certain mortgage loans are based on quoted market prices. Prepayment assumptions have been applied to the mortgage and installment loan portfolio. The fair value of the loans was also reduced by an estimate of credit losses inherent in the portfolio. Generally accepted accounting principles do not require nor the Corporation has performed a fair valuation of its lease financing portfolio, therefore it is included in the loan totals at its carrying amount.

The fair value of deposits with no stated maturity, such as noninterest bearing demand deposits, savings, NOW and money market

accounts is, for purpose of this disclosure, equal to the amount payable on demand as of the respective dates. The fair value of certificates of deposit is based on the discounted value of contractual cash flows, using interest rates currently being offered on certificates with similar maturities.

Borrowings and long-term debt, which include notes payable, senior debentures, subordinated notes and capital securities, were valued using quoted market rates for similar instruments at December 31, 2000 and 1999, respectively.

Commitments to extend credit were fair valued using the fees currently charged to enter into similar agreements. For those commitments where a future stream of fees is charged, the fair value was estimated discounting the projected cash flows of fees on commitments, which are expected to be disbursed, based on historical experience. The fair value of letters of credit is based on fees currently charged on similar agreements.

Carrying amounts and estimated fair values for financial instruments at December 31 were:

(In thousands)	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and short-term investments	$ 1,794,669	$ 1,794,669	$ 1,649,690	$ 1,649,690
Trading securities	153,073	153,073	236,610	236,610
Investment securities available-for-sale	8,704,478	8,704,478	7,324,950	7,324,950
Investment securities held-to-maturity	356,177	350,018	299,312	295,076
Loans held-for sale	823,901	824,923	619,298	619,743
Loans, net	14,942,531	15,281,966	13,996,446	13,902,072
Financial Liabilities:				
Deposits	$ 14,804,907	$ 14,318,131	$ 14,173,715	$ 14,135,259
Federal funds purchased	687,914	687,914	28,039	28,039
Securities sold under agreements to repurchase	4,276,201	4,276,201	4,386,441	4,386,441
Short-term borrowings	4,369,212	4,369,212	2,612,389	2,612,389
Notes payable	1,176,912	1,278,627	1,852,599	1,781,786
Subordinated notes	125,000	122,538	125,000	116,604
Capital securities	150,000	153,442	150,000	154,665
Commitments to extend credit and standby letters of credit:				
Commitments to extend credit	$ 4,528,797	$ 7,275	$ 4,339,059	$ 8,391
Letters of credit	117,667	4,721	84,948	1,847

NOTE 28 - RISK MANAGEMENT AND TRADING ACTIVITIES:

The Corporation's exposure to market risk relates to changes in interest rates or in the fair value of the underlying financial instruments and, to a limited extent, to fluctuations in foreign currency exchange rates. The operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts.

Risk management activities are aimed at optimizing net interest income, consistent with the Corporation's business strategies. Among the various methods used by the Corporation to measure the risks generated by assets and liabilities are beta-adjusted gap analysis, simulations and duration analysis.

In managing its market risk the Corporation enters, to a limited extent, into certain derivative instruments that expose it to credit risk, which represents the risk that the counterparties might default on their obligations. To manage the level of credit risk the Corporation deals with counterparties of good credit standing, enters into master netting agreements whenever possible and, when appropriate, obtains collateral. Concentrations of credit

risk which arise through the Corporation's off-balance sheet lending activities are presented in Note 26.

The following table indicates the types of derivative financial instruments the Corporation held at December 31. The credit exposure is represented by the fair value of the instruments with a positive market value. The following table should be read in conjunction with the descriptions of these products and the Corporation's objectives for holding them which immediately follows:

(In thousands)	2000			1999		
	Notional amount	Average for the year	Fair value	Notional amount	Average for the year	
Interest rate swaps:						
Pay floating/receive fixed	$ 15,000	$ 15,000	$ (24)	$ 15,000	$ 15,000	$
Pay fixed/receive floating	35,000	35,000	(133)	35,000	100,792	
Interest rate swaptions	118,664	105,511	32,571	80,456	77,533	
Interest rate options	17,891	19,561	451	21,416	23,631	
Interest rate caps	2,363	2,494	16	2,713	2,713	
Interest rate floors	2,363	2,494	(28)	2,713	2,713	
Forward contracts	15,000	1,250	(80)			
Foreign exchange contracts	919	3,991		1,930	2,485	
Securities sold not yet purchased		486			413	

Interest rate swaps

Interest rate swap agreements generally involve the exchange of fixed and floating interest rate payment obligations without the exchange of the underlying principal. Net interest settlements on interest rate swaps are recorded as an adjustment to interest income or interest expense of the hedged item.

(In thousands)	2000	1999
Activity of interest rate swaps hedges for the year:		
Beginning balance	$ 50,000	$ 205,000
Matured swaps		(155,000)
Ending balance	$ 50,000	$ 50,000
Pay floating/receive fixed:		
Weighted average receive rate at December 31	6.42%	6.42%
Weighted average pay rate at December 31	6.42	6.09
Pay fixed/receive floating:		
Weighted average receive rate at December 31	6.56%	5.38%
Weighted average pay rate at December 31	6.75	6.75

The agreements were entered into to change the Corporation's interest rate exposure and they end at the time the related obligation matures. The variable rates are based on the three-month and six-month LIBOR rates. Nonperformance by any of the counterparties on this agreement will expose the Corporation to an interest rate risk.

Interest rate swaptions

The Corporation enters into options on swaps ("swaption") derivative securities, which combine the characteristics of interest rate swaps and options, for hedging purposes. BPPR issues certificates of deposit with returns linked to the Standard and Poor's 500 index (the index). In order to hedge the cost of these certificates, positions in swaptions are assumed. These swaptions earn a return to the Corporation equal to the appreciation in the index throughout the life of the certificate of deposit issued. In exchange, the Corporation pays the counterparty a fixed rate of interest.

Interest rate futures and forwards

Futures and forwards are contracts for the delayed delivery of securities in which the seller agrees to deliver on a specified future date, a specified instrument, at a specified price or yield. The credit risk inherent in futures is the risk that the exchange party may default. The credit risk inherent in forwards arises from the potential inability of counterparties to meet the terms of their contracts. Both futures and forwards are also subject to the risk of movements in interest rates or in the value of the underlying securities or instruments.

Forward contracts include "when-issued securities." When-issued securities are commitments to purchase or sell securities authorized for issuance but not yet actually issued. Accordingly, they are not recorded on the balance sheet until issued. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in securities values and interest rates.

Interest rate options, caps and floors

Interest rate options are contracts that grant the purchaser, for a premium payment, the right to either purchase from or sell to the writer of the option a financial instrument at a specified price within a specified period of time or on a specified date. Interest rate caps and floors are option-like contracts that require the writer to pay the purchaser at specified future dates the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to a notional principal amount. The option writer receives a premium for bearing the risk of unfavorable interest rate changes.

Foreign exchange contracts

To satisfy the needs of its customers, from time to time, the Corporation enters into foreign exchange contracts in the spot or futures market. Spot contracts require the exchange of two currencies at an agreed rate to occur within two business days of the contract date. Forward and futures contracts to purchase or sell currencies at a future date settle over periods of up to one year, in general.

Securities sold not yet purchased

The Corporation enters in securities sold not yet purchased transactions for hedging strategies and for trading purposes. Various assets and liabilities, such as investment securities financed by borrowings, are usually hedged to lock-in spreads and reduce the risk of losses in value due to interest rate fluctuations.

Open positions on securities sold short for trading purposes are usually closed at each month-end. The volume of such transactions is not significant.

Trading activities

The Corporation maintains limited trading positions in certain financial instruments and nonfinancial contracts including, to a limited extent, derivatives. Most of the Corporation's trading activities are limited to the purchase of debt securities for the purpose of selling them in the near term and positioning securities for resale to retail customers. Trading activities of the Corporation are subject to strict guidelines approved by the Board of Directors and included in the investment policy.

In anticipation of customer demand, the Corporation carries an inventory of capital market instruments and maintains market liquidity by quoting bid and offer prices to and trading with other market makers. Positions are also taken in interest rate sensitive instruments, based on expectations of future market conditions. These activities constitute the proprietary trading business and are held by the Corporation to provide customers with financial products at competitive prices. As trading strategies depend on both market- making and proprietary positions, given the relationship between instruments and markets, those activities are managed in concert in order to maximize net trading revenue.

All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. Fluctuations in market prices, interest

rates or exchange rates change the market value of the instruments. As the instruments are recognized at market value, these changes directly affect reported income. Exposure to market risk is managed, in accordance with risk limits set by senior management, by buying or selling instruments or entering into offsetting positions.

At December 31, 2000 the Corporation held no future contracts written for trading purposes. At December 31, 1999 the Corporation held no futures or options contracts written for trading purposes. The following table indicates the fair value and net gains (losses) of derivatives financial instruments held for trading purposes.

(In thousands)	Fair Value				
	At December 31, 2000		Average for the period		Net gains
	Assets	Liabilities	Assets	Liabilities	(losses)
Options	$ 25	$ (25)	$ 9	$ (9)	$ 2
Forward contracts		(127)	56	(92)	(438)

(In thousands)	Fair Value				
	At December 31, 1999		Average for the period		Net gains
	Assets	Liabilities	Assets	Liabilities	(losses)
Futures contracts					$ (7)
Forward contracts	$ 50		$ 123		$1,476

The Corporation's credit exposure from off-balance sheet derivative financial instruments held or issued for trading purposes is represented by the fair value of the instruments with a positive fair value at that date.

NOTE 29 - SUPPLEMENTAL DISCLOSURE ON THE CONSOLIDATED STATEMENTS OF CASH FLOWS:

During the year ended December 31, 2000, the Corporation paid interest and income taxes amounting to $1,142,495,000 and $117,920,000, respectively (1999 - $879,340,000 and $132,871,000; 1998 - $768,415,000 and $93,850,000). In addition, loans transferred to other real estate and other property for the year ended December 31, 2000, amounted to $31,148,000 and $25,403,000, respectively (1999 - $29,290,000 and $24,959,000). In connection with the sale of the investment in BF, the Corporation received a note receivable (denominated in U.S. dollars) for $22,500,000, which earns interest at 9.5%.

NOTE 30 - SEGMENT REPORTING:

Popular, Inc. operates three major reportable segments: commercial banking, mortgage and consumer lending, and lease financing. Management has determined its reportable segments based on legal entity, which is the way that operating decisions are made and performance is measured. These entities have then been aggregated by products, services and markets with similar characteristics.

The Corporation's commercial banking segment includes all banking subsidiaries, which provide individuals, corporations and institutions with commercial and retail banking services, including loans and deposits, trust, mortgage banking and servicing, asset management, credit cards and other financial services. These services are offered through a delivery system of 304 branches throughout Puerto Rico, the U.S. and British Virgin Islands, and the United States.

The Corporation's mortgage and consumer lending segment includes those non-banking subsidiaries whose principal activity is originating mortgage and consumer loans such as Popular Mortgage, Levitt Mortgage, Popular Finance and Equity One. The services of Popular Mortgage, Levitt Mortgage and Popular Finance are furnished through 84 offices in Puerto Rico while those of Equity One are provided in 136 offices throughout 30 states.

The Corporation's lease financing segment provides financing for vehicles and equipment through 12 offices of Popular Leasing and Rental, Inc. in Puerto Rico and 11 offices of Popular Leasing, USA in 8 states. The "Other"

category includes all holding companies and non-banking subsidiaries which provide insurance agency services, retail financial services, investment banking and broker/dealer activities, as well as those providing ATM processing services, electronic data processing and consulting services, sale and rental of electronic data processing equipment, and selling and maintenance of computer software. As of December 31, 1998 and 1999, it also included the banking operations of BF in the Dominican Republic. The Corporation's ownership interest in BF was sold during 2000.

The accounting policies of the segments are the same as those described in the summary of accounting policies. Following are the results of operations and selected financial information by operating segment for each of the three years ended December 31:

(In thousands)	Commercial banking	Mortgage and consumer lending	Lease financing	Other	El
	2000				
Net interest income	$ 845,575	$ 92,373	$ 43,546	$ 1,408	$
Provision for loan losses	137,774	29,250	21,761	5,855	
Other income	253,112	50,119	21,620	148,891	
Intangibles amortization	28,399	717	754	4,688	
Depreciation expense	58,055	3,342	9,018	6,433	
Other operating expenses	556,782	73,471	22,629	115,713	
Net loss of minority interest		48		1,104	
Income tax	81,314	12,201	4,181	4,641	
Net income	$ 236,363	$ 23,559	$ 6,823	$ 14,073	$
Segment assets	$ 23,880,191	$ 2,848,464	$ 957,175	$ 6,240,372	$ (

(In thousands)	Commercial banking	Mortgage and consumer lending	Lease financing	Other	E
	1999				
Net interest income	$ 817,122	$ 90,656	$ 42,772	$ 3,255	$
Provision for loan losses	112,881	26,457	8,022	1,588	
Other income	249,446	45,084	18,912	65,816	
Intangibles amortization	28,143	436	754	2,455	
Depreciation expense	55,776	1,852	8,347	5,345	
Other operating expenses	576,817	70,624	25,040	63,829	
Net loss of minority interest				2,454	
Income tax	67,094	12,685	7,526	(1,036)	
Net income	$ 225,857	$ 23,686	$ 11,995	$ (656)	$
Segment assets	$ 21,736,663	$ 2,148,084	$ 733,063	$ 6,350,477	$ (

(In thousands)	Commercial banking	Mortgage and consumer lending	Lease financing	Other	E
	1998				
Net interest income	$ 751,126	$ 83,940	$ 40,180	$ (2,163)	$
Provision for loan losses	104,374	21,480	11,250	109	
Other income	215,021	31,944	18,828	26,915	
Intangibles amortization	25,602	890	1,237	131	
Depreciation expense	51,830	1,428	8,590	801	
Operating expenses	532,015	55,798	21,668	20,855	
Net loss of minority interest	328	328			
Income tax	53,464	13,964	6,258	972	
Net income	$ 198,862	$ 22,324	$ 10,005	$ 2,212	$
Segment assets	$ 19,973,005	$ 1,830,134	$ 678,878	$ 5,269,381	$ (

GEOGRAPHIC INFORMATION

(In thousands)	2000	1999	1998
Revenues(*):			
Puerto Rico	$1,808,295	$1,548,804	$1,419,371
United States	694,192	561,307	462,582
Other	112,768	114,475	60,996
Total consolidated revenues	$2,615,255	$2,224,586	$1,942,949

(*) Total revenues include interest income, service charges on deposit accounts, other service fees, gain on sale of securities, trading account profit, and other income.

(In thousands)	2000	1999	1998
Selected Balance Sheet Information:			
Puerto Rico			
Total assets	$ 20,146,184	$ 18,064,388	$ 16,517,161
Loans	9,370,627	8,767,843	7,895,689
Deposits	9,974,677	9,792,129	9,444,199
United States			
Total assets	$ 7,246,259	$ 6,407,217	$ 5,660,628
Loans	6,264,014	5,460,696	4,556,060
Deposits	4,107,994	3,472,839	3,410,808
Other			
Total assets	$ 664,608	$ 988,934	$ 982,568
Loans	422,444	679,215	627,046
Deposits	722,236	908,747	817,207

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NOTE 31 - CONTINGENT LIABILITIES:

The Corporation is a defendant in a number of legal proceedings arising in the normal course of business. Management believes, based on the opinion of legal counsel, that the final disposition of these matters will not have a material adverse effect on the Corporation's financial position or results of operations.

NOTE 32 - POPULAR, INC. (HOLDING COMPANY ONLY) FINANCIAL INFORMATION:

The following condensed financial information presents the financial position of the Holding Company only as of December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31.

The financial information related to the investment in subsidiaries, presented below, was restated to reflect the U.S. reorganization which took place in 1999. As part of this reorganization, the Banco Popular branches in New York were merged with and into BPNA.

Statements of Condition

(In thousands)	December 31, 2000	December 31, 1999
ASSETS		
Cash	$ 283	$ 332
Money market investments	20,837	35,500
Investment securities available-for-sale, at market value	151,413	126,716
Investment in BPPR and subsidiaries, at equity	1,344,703	1,048,739
Investment in Popular International Bank and subsidiaries, at equity	573,375	540,866
Investment in other subsidiaries, at equity	87,696	76,069
Advances to subsidiaries	515,547	895,448
Loans to a former subsidiary	28,226	
Other assets	23,136	10,057
Total assets	$2,745,216	$2,733,727
LIABILITIES AND STOCKHOLDERS' EQUITY		
Commercial paper	$ 51,987	$ 133,117
Other short-term borrowings	325,726	297,933
Notes payable	212,011	484,715
Accrued expenses and other liabilities	36,848	31,976
Subordinated notes	125,000	125,000
Stockholders' equity	1,993,644	1,660,986
Total liabilities and stockholders' equity	$2,745,216	$2,733,727

Statements of Income

(In thousands)	Year ended December 31, 2000	1999	1998
Income:			
Dividends from subsidiaries	$ 88,000	$ 314,348	$ 70,925
Interest on money market and investment securities	2,718	3,696	5,052
Other operating income	10,818	7,232	346
Gain on sale of securities	12,001		4,303
Interest on advances to subsidiaries	49,295	57,219	49,564
Interest on loans to a former subsidiary	1,068		
Total income	163,900	382,495	130,190
Expenses:			
Interest expense	59,690	64,739	58,747
Provision for loan losses	1,365		
Operating expenses	2,454	2,155	1,108
Total expenses	63,509	66,894	59,855
Income before income taxes and equity in undistributed earnings of subsidiaries	100,391	315,601	70,335
Income taxes	3,354		32
Income before equity in undistributed earnings of subsidiaries	97,037	315,601	70,303
Equity in undistributed earnings of subsidiaries (dividends in excess of annual net earnings of subsidiaries)	179,066	(58,043)	162,045
Net income	$ 276,103	$ 257,558	$ 232,348

Statements of Cash Flows

(In thousands)	Year ended December 31, 2000	1999	1998
Cash flows from operating activities:			
Net income	$ 276,103	$ 257,558	$ 232,348
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries (dividends in excess of annual net earnings of subsidiaries)	(179,066)	58,043	(162,045)
Net gain on sale of investment securities available-for-sale	(12,001)		(4,303)
Amortization of premiums and accretion of discounts on investments		17	25
Net increase in other assets	(18,539)	(5,494)	(1,515)
Net increase (decrease) in current and deferred taxes	6,826	(6,108)	367
Net (decrease) increase in interest payable	(605)	1,557	2,376
Net increase in other liabilities	5,451	5,207	419
Total adjustments	(197,934)	53,222	(164,676)
Net cash provided by operating activities	78,169	310,780	67,672

Cash flows from investing activities:			
Net decrease (increase) in money market investments	14,663	(31,800)	(3,700)
Purchases of investment securities available-for-sale	(37,318)	(94,299)	(7,362)
Maturities of investment securities available-for-sale	13,503	50,000	5,000
Proceeds from sales of investment securities available-for-sale	19,950	3,308	7,700
Capital contribution to subsidiaries	(25,747)	(5,100)	(119,941)
Distribution from subsidiary		8,642	
Net change in advances to subsidiaries	350,310	(126,042)	(77,700)
Net cash provided by (used in) investing activities	335,361	(195,291)	(196,003)
Cash flows from financing activities:			
Net decrease in securities sold under agreements to repurchase		(51,438)	(337)
Net (decrease) increase in commercial paper	(81,130)	(31,398)	66,416
Net increase in other short-term borrowings	27,793	50,861	156,197
Net (decrease) increase in notes payable	(272,704)	47,838	(29,211)
Cash dividends paid	(95,297)	(87,012)	(72,021)
Proceeds from issuance of common stock	9,823	9,387	7,433
Treasury stock acquired	(2,064)	(53,919)	
Net cash (used in) provided by financing activities	(413,579)	(115,681)	128,477
Net (decrease) increase in cash	(49)	(192)	146
Cash at beginning of year	332	524	378
Cash at end of year	$ 283	$ 332	$ 524

The principal source of income for the Holding Company consists of dividends from BPPR. As a member subject to the regulations of the Federal Reserve Board, BPPR must obtain the approval of the Federal Reserve Board for any dividend if the total of all dividends declared by it in any calendar year would exceed the total of its net

profits for that year, as defined by the Federal Reserve Board, combined with its retained net profits for the preceding two years. The payment of dividends by BPPR may also be affected by other regulatory requirements and policies, such as the maintenance of certain minimum capital levels described in Note 19. At December 31, 2000, BPPR could have declared a dividend of approximately $205,088,000 without the approval of the Federal Reserve Bank.

NOTE 33 - CONDENSED CONSOLIDATING FINANCIAL INFORMATION OF GUARANTOR AND ISSUERS OF GUARANTEED SECURITIES REGISTERED:

The following condensed consolidating financial information presents the financial position of Popular, Inc. Holding Company (PIHC), Popular International Bank, Inc. (PIBI), Popular North America, Inc. (PNA) and all other subsidiaries of the Corporation as of December 31, 1999 and 2000, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2000. PIBI, PNA, and their wholly-owned subsidiaries, except BPNA and Banco Popular, National Association (BP,N.A.), have a fiscal year that ends on November 30. Accordingly, the consolidated financial information of PIBI and PNA as of November 30, 1998, 1999 and 2000, corresponds to their financial information included in the consolidated financial statements of Popular, Inc. as of December 31, 1998, 1999, and 2000, respectively.

PIHC, PIBI and PNA are authorized issuers of debt securities and preferred stock under a shelf registration filed with the SEC that became effective on August 4, 1999.

PIBI is an operating subsidiary of PIHC and is the holding company of its wholly-owned subsidiaries, ATH Costa Rica, CreST, S.A., and PNA. The ownership interest in BF, sold in 2000, was also part of PIBI during 1998 and 1999.

PNA is an operating subsidiary of PIBI and is the holding company of its wholly-owned subsidiaries, Popular Cash Express, Inc., Equity One, Inc., BPNA and BP, N.A., including its wholly-owned subsidiary Popular Insurance, Inc.

PIHC fully and unconditionally guarantees all registered debt securities and preferred stock issued by PIBI and PNA. As described in Note 32 of these financial statements, the principal source of cash flows for PIHC consists of dividends from BPPR.

Statement of Condition

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries
	Year ended December 31, 2000			
ASSETS				
Cash and due from banks	$ 283	$ 18	$ 288	$ 822,672
Money market investments	20,837	326	60	1,944,366
Investment securities available-for-sale, at market value	151,413	12,577	6,342	8,534,146
Investment securities held-to-maturity, at amortized cost				510,817
Trading account securities, at market value				153,073
Investment in subsidiaries, at equity	2,005,774	542,158	741,505	139,053
Loans held-for-sale, at lower of cost or market				823,901
Loans	543,773	22,500	1,842,515	15,629,152
Less - Unearned income				347,195
Allowance for loan losses				290,653
	543,773	22,500	1,842,515	14,991,304
Premises and equipment				405,772
Other real estate				23,518
Customers' liabilities on acceptances				1,647
Accrued income receivable	1,113	590	12,051	209,278
Other assets	22,023	895	4,937	340,614
Intangible assets				282,048
	$ 2,745,216	$ 579,064	$ 2,607,698	$29,182,209
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Deposits:				
Non-interest bearing				$ 3,207,037
Interest bearing				11,738,916
				14,945,953
Federal funds purchased and securities sold under agreements to repurchase			$ 68,700	5,033,117
Other short-term borrowings	$ 377,713	$ 5,414	1,336,063	4,298,732
Notes payable	212,011		633,254	1,997,722
Acceptances outstanding				1,647
Other liabilities	36,848	275	37,267	421,807
	626,572	5,689	2,075,284	26,698,978
Subordinated notes	125,000			
Preferred beneficial interests in Popular North America's Junior subordinated deferrable interest debentures Guaranteed by the Corporation				150,000
Minority interest in consolidated subsidiaries				105
Stockholders' equity:				
Preferred stock	100,000			
Common stock	830,356	3,962	2	72,575
Surplus	260,984	485,676	439,964	1,328,053
Retained earnings	865,082	83,576	90,434	949,552
Treasury stock, at cost	(66,214)			(314)
Accumulated other comprehensive income (loss), net of taxes	3,436	161	2,014	(16,740)
	1,993,644	573,375	532,414	2,333,126
	$ 2,745,216	$ 579,064	$ 2,607,698	$29,182,209

Statement of Condition

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries	E
	Year ended December 31, 1999				
ASSETS					
Cash and due from banks	$ 332	$ 227	$ 664	$ 693,238	$
Money market investments	35,500	3,258	21,503	1,720,305	
Investment securities available-for-sale, at market value	126,716	13,525	5,330	7,180,179	
Investment securities held-to-maturity, at amortized cost				453,952	
Trading account securities, at market value				236,610	
Investment in subsidiaries, at equity	1,665,674	539,288	620,332	113,145	
Loans held-for-sale, at lower of cost or market				619,298	
Loans	895,448	16,961	1,427,775	14,706,699	
Less - Unearned income				370,944	
Allowance for loan losses				292,010	
	895,448	16,961	1,427,775	14,043,745	
Premises and equipment				440,971	
Other real estate				29,268	
Customers' liabilities on acceptances				12,041	
Accrued income receivable	122	196	672	187,232	
Other assets	9,935	593	4,782	357,057	
Intangible assets				305,373	
	$ 2,733,727	$ 574,048	$ 2,081,058	$ 26,392,414	$
LIABILITIES AND STOCKHOLDERS' EQUITY					
Liabilities:					
Deposits:					
Non-interest bearing				$ 3,315,609	$
Interest bearing				11,510,011	
				14,825,620	
Federal funds purchased and securities sold under agreements to repurchase				4,521,700	
Other short-term borrowings	$ 431,050	$ 25,719	$ 324,657	2,950,906	
Notes payable	484,715	7,007	1,201,412	1,622,821	
Acceptances outstanding				12,041	
Other liabilities	31,976	455	42,582	376,593	
	947,741	33,181	1,568,651	24,309,681	
Subordinated notes	125,000				
Preferred beneficial interests in Popular North America's Junior subordinated deferrable interest debentures Guaranteed by the Corporation				150,000	
Minority interest in consolidated subsidiaries					
Stockholders' equity:					
Preferred stock	100,000				
Common stock	827,662	3,962	2	62,445	
Surplus	243,855	470,226	439,964	1,273,797	
Retained earnings	694,301	69,529	74,005	750,111	
Treasury stock, at cost	(64,123)			(287)	
Accumulated other comprehensive income (loss), net of taxes	(140,709)	(2,850)	(1,564)	(153,333)	
	1,660,986	540,867	512,407	1,932,733	
	$ 2,733,727	$ 574,048	$ 2,081,058	$ 26,392,414	$

Consolidated Statement of Income

	Year ended December 31, 2000				
(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	Other Subsidiaries	Eli E
INTEREST INCOME:					
Loans	$ 50,363	$ 876	$ 119,316	$ 1,589,626	$ (
Money market investments	855	81	189	118,585	
Investment securities	1,863	2	715	496,603	
Trading account securities				14,771	
	53,081	959	120,220	2,219,585	(
INTEREST EXPENSE:					
Deposits				553,471	
Short-term borrowings	30,354	552	54,030	522,091	
Long-term debt	29,336	142	72,646	148,321	(
	59,690	694	126,676	1,223,883	(
Net interest (loss) income	(6,609)	265	(6,456)	995,702	
Provision for loan losses	1,365			193,275	
Net interest (loss) income after provision for loan losses	(7,974)	265	(6,456)	802,427	
Service charges on deposit accounts				125,519	
Other service fees				218,853	
Gain (loss) on sale of securities	12,001			(800)	
Trading account profit				2,230	
Other operating income	10,818	1,279		103,842	
	14,845	1,544	(6,456)	1,252,071	
OPERATING EXPENSES:					
Personnel costs:					
Salaries		280		306,249	
Profit sharing				18,913	
Pension and other benefits		46		68,688	
		326		393,850	
Net occupancy expenses		12		67,724	
Equipment expenses	1			98,021	
Other taxes	1,350			32,775	
Professional fees	473	9	228	67,126	
Communications	19			45,670	
Business promotion				46,791	
Printing and supplies	2			20,826	
Other operating expenses	609	50	421	69,160	
Amortization of intangibles				34,558	
	2,454	397	649	876,501	
Income (losses) before income tax and equity in earnings (losses) of subsidiaries	12,391	1,147	(7,105)	375,570	
Income tax	3,354		(2,590)	101,573	
Net loss of minority interest				1,152	
Income (losses) before equity in earnings (losses) of subsidiaries	9,037	1,147	(4,515)	275,149	
Equity in earnings of subsidiaries	267,066	12,900	20,944	9,271	(
NET INCOME	$ 276,103	$ 14,047	$ 16,429	$ 284,420	$ (

Consolidated Statement of Income

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	Other Subsidiaries	El
	Year ended December 31, 1999				
INTEREST INCOME:					
Loans	$ 57,219	$ 484	$ 80,093	$ 1,375,630	$ (
Money market investments	662	263	2,418	64,359	
Investment securities	3,034	2	720	435,035	
Trading account securities				19,171	
	60,915	749	83,231	1,894,195	(
INTEREST EXPENSE:					
Deposits				460,358	
Short-term borrowings	22,525	922	22,822	354,270	
Long-term debt	42,214	100	66,445	115,629	
	64,739	1,022	89,267	930,257	(
Net (loss) interest income	(3,824)	(273)	(6,036)	963,938	
Provision for loan losses				148,948	
Net interest income (loss) after provision for loan losses	(3,824)	(273)	(6,036)	814,990	
Service charges on deposit accounts				118,187	
Other service fees				171,025	
Gain on sale of securities			216	422	
Trading account loss				(1,582)	
Other operating income	7,232	608	4	83,147	
	3,408	335	(5,816)	1,186,189	
OPERATING EXPENSES:					
Personnel costs:					
Salaries		235		289,760	
Profit sharing				23,881	
Pension and other benefits		43		72,777	
		278		386,418	
Net occupancy expenses		12		60,802	
Equipment expenses	1			88,346	
Other taxes	835			32,455	
Professional fees	1,307	11	699	67,807	
Communications	2			43,144	
Business promotion				45,938	
Printing and supplies	10			20,699	
Other operating expenses		42	9	58,815	
Amortization of intangibles				31,788	
	2,155	343	708	836,212	
Income (losses) before income tax and equity in earnings (losses) of subsidiaries	1,253	(8)	(6,524)	349,977	
Income tax			(2,277)	88,546	
Net loss of minority interest				2,454	
Income (losses) before equity in earnings (losses) of subsidiaries	1,253	(8)	(4,247)	263,885	
Equity in earnings of subsidiaries	256,305	4,858	13,199	13,180	(
NET INCOME	$ 257,558	$ 4,850	$ 8,952	$ 277,065	$ (

Consolidated Statement of Income

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	Other Subsidiaries	El
	Year ended December 31, 1998				
INTEREST INCOME:					
Loans	$ 49,564		$ 69,401	$ 1,222,126	$
Money market investments	121	$ 351	2,337	49,632	
Investment securities	4,931	1	386	393,032	
Trading account securities		244		17,355	
	54,616	596	72,124	1,682,145	
INTEREST EXPENSE:					
Deposits				412,942	
Short-term borrowings	25,800	678	24,175	268,056	
Long-term debt	32,947		49,587	122,212	
	58,747	678	73,762	803,210	
Net interest (loss) income	(4,131)	(82)	(1,638)	878,935	
Provision for loan losses				137,213	
Net interest (loss) income after provision for loan losses	(4,131)	(82)	(1,638)	741,722	
Service charges on deposit accounts				103,732	
Other service fees				116,406	
Gain on sale of securities	4,303		1,971	2,659	
Trading account loss		(206)		3,859	
Other operating income	346	468	1,672	57,499	
	518	180	2,005	1,025,877	
OPERATING EXPENSES:					
Personnel costs:					
Salaries		218		247,372	
Profit sharing				22,067	
Pension and other benefits		38		67,705	
		256		337,144	
Net occupancy expenses	(25)	12		48,620	
Equipment expenses	20			75,354	
Other taxes	743			31,448	
Professional fees	328	4	1,297	56,878	
Communications				36,941	
Business promotion				39,376	
Printing and supplies	6			17,598	
Other operating expenses	36	15	953	45,982	
Amortization of intangibles				27,860	
	1,108	287	2,250	717,201	
Income (losses) before income tax and equity in earnings (losses) of subsidiaries	(590)	(107)	(245)	308,676	
Income tax	32		(1,000)	75,626	
Net loss of minority interest				328	
Income (losses) before equity in earnings (losses) of subsidiaries	(622)	(107)	755	233,378	
Equity in earnings of subsidiaries	232,970	9,305	9,708	13,891	
NET INCOME	$ 232,348	$ 9,198	$ 10,463	$ 247,269	$

Statement of Cash Flow

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	Other subsidiaries
				Year ended December 31,
Cash flows from operating activities:				
Net income	$ 276,103	$ 14,047	$ 16,429	$ 284,420
Adjustments to reconcile net income to cash provided by operating activities:				
Equity in undistributed earnings of subsidiaries	(267,066)	(12,900)	(20,944)	(9,271)
Depreciation and amortization of premises and equipment				76,848
Provision for loan losses	1,365			193,275
Amortization of intangibles				34,558
Net gain on sale of investment securities available-for-sale	(12,001)			800
Net loss on disposition of premises and equipment				210
Net gain on sale of loans				(7,935)
Amortization of premiums and accretion of discounts on investments			(430)	1,350
Increase in loans held-for-sale				(204,603)
Amortization of deferred loan fees and costs				(5,265)
Net decrease in trading securities				83,537
Net increase in interest receivable	(991)	(394)	(11,379)	(27,779)
Net increase in other assets	(18,913)	(302)	(155)	(9,984)
Net (decrease) increase in interest payable	(605)	(210)	(3,585)	29,301
Net increase (decrease) in current and deferred taxes	6,826		(2,165)	(17,268)
Net increase in postretirement benefit obligation				3,844
Net increase in other liabilities	5,451	31	435	26,502
Total adjustments	(285,934)	(13,775)	(38,223)	168,120
Net cash (used in) provided by operating activities	(9,831)	272	(21,794)	452,540
Cash flows from investing activities:				
Net decrease (increase) in money market investment	14,663	2,931	21,443	(254,838)
Purchases of investment securities held-to-maturity				(5,517,411)
Maturities of investment securities held-to-maturity				5,458,897
Purchases of investment securities available-for-sale	(37,318)		(298)	(4,759,954)
Maturities of investment securities available-for-sale	13,503			2,771,791
Proceeds from sales of investment securities available-for-sale	19,950			799,005
Net repayments (disbursements) on loans	350,310	16,392	(414,741)	(1,872,615)
Proceeds from sale of loans				1,024,637
Acquisition of loan portfolios				(589,178)
Capital contribution to Subsidiary	(25,747)	(7,943)	(97,390)	(10,174)
Assets acquired, net of cash				(8,453)
Acquisition of premises and equipment				(75,147)
Proceeds from sale of premises and equipment				11,631
Cash transferred due to sale of investment in subsidiary				(46,899)
Merger of Popular Holdings USA in PNA			455	
Dividends received from subsidiary	88,000			
Net cash provided by (used in) investing activities	423,361	11,380	(490,531)	(3,068,708)
Cash flows from financing activities:				
Net increase in deposits				413,493
Net increase in federal funds purchases and securities sold under agreements to repurchase			68,700	511,417
Net (decrease) increase in other short-term borrowings	(53,337)	(20,304)	1,011,407	1,385,576
Proceeds from issuance of notes payable				457,998
Payments of notes payable	(272,704)	(7,007)	(568,158)	(40,154)
Dividends paid to parent company				(88,000)
Dividends paid	(95,297)			

Proceeds from issuance of common stock	9,823			
Treasury stock acquired	(2,064)			(27)
Capital contribution from parent		15,450		105,299
Net cash (used in) provided by financing activities	(413,579)	(11,861)	511,949	2,745,602
Net (decrease) increase in cash and due from banks	(49)	(209)	(376)	129,434
Cash and due from banks at beginning of year	332	227	664	693,238
Cash and due from banks at end of year	$ 283	$ 18	$ 288	$ 822,672

Statement of Cash Flow

	Year ended December 31, 1			
(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	Other subsidiaries
Cash flows from operating activities:				
Net income	$ 257,558	$ 4,850	$ 8,952	$ 277,065
Adjustments to reconcile net income to cash provided by operating activities:				
Equity in undistributed earnings of subsidiaries	(256,305)	(4,858)	(13,199)	(13,180)
Depreciation and amortization of premises and equipment				71,320
Provision for loan losses				148,948
Amortization of intangibles				31,788
Net gain on sale of investment securities available-for-sale			(216)	(422)
Net loss on disposition of premises and equipment				365
Net gain on sale of loans				(2,717)
Amortization of premiums and accretion of discounts on investments	17			6,861
Decrease in loans held-for-sale				26,818
Amortization of deferred loan fees and costs				(713)
Net decrease in trading securities				82,117
Net decrease (increase) in interest receivable	1,063	(187)	(356)	(26,550)
Net (increase) decrease in other assets	(6,557)	(177)	(2,164)	(28,502)
Net increase (decrease) in interest payable	1,557	424	(16,395)	33,006
Net decrease in current and deferred taxes	(6,108)		(2,277)	(37,458)
Net increase in postretirement benefit obligation				9,708
Net increase (decrease) in other liabilities	5,207	(1)	31,695	(10,846)
Total adjustments	(261,126)	(4,799)	(2,912)	290,543
Net cash (used in) provided by operating activities	(3,568)	51	6,040	567,608
Cash flows from investing activities:				
Net (increase) decrease in money market investment	(31,800)	(1,793)	73,926	(529,179)
Purchases of investment securities held-to-maturity				(6,070,728)
Maturities of investment securities held-to-maturity				6,095,690
Purchases of investment securities available-for-sale	(94,299)	(8,515)	(1,266)	(6,201,587)
Maturities of investment securities available-for-sale	50,000			5,417,356
Proceeds from sales of investment securities available-for-sale	3,308			165,029
Net disbursements on loans	(126,042)	(16,961)	(323,166)	(2,802,459)
Proceeds from sale of loans				920,421
Acquisition of loan portfolios				(5,945)
Capital contribution from (to) Subsidiary	3,542	(125,725)	(36,486)	(4,644)
Assets acquired, net of cash				(2,925)
Acquisition of premises and equipment				(108,428)
Proceeds from sale of premises and equipment				24,923
Dividends received from subsidiary	314,348			
Net cash provided by (used in) investing activities	119,057	(152,994)	(286,992)	(3,102,476)
Cash flows from financing activities:				
Net increase in deposits				1,134,197
Net (decrease) increase in federal funds purchases and securities sold under agreements to repurchase	(51,438)		(341,700)	677,276
Net increase (decrease) in other short-term borrowings	19,463	20,719	73,797	872,245
Proceeds from issuance of notes payable	47,838	7,007	703,100	125,808
Payments of notes payable			(156,086)	(12,558)
Dividends paid to parent company				(314,348)
Dividends paid	(87,012)			

Proceeds from issuance of common stock	9,387			
Treasury stock acquired	(53,919)			
Capital contribution from parent		125,421		60,125
Net cash (used in) provided by financing activities	(115,681)	153,147	279,111	2,542,745
Net (decrease) increase in cash and due from banks	(192)	204	(1,841)	7,877
Cash and due from banks at beginning of year	524	23	2,505	685,361
Cash and due from banks at end of year	$ 332	$ 227	$ 664	$ 693,238

Statement of Cash Flow

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	Other subsidiaries
	Year ended December 31,			
Cash flows from operating activities:				
Net income	$ 232,348	$ 9,198	$ 10,463	$ 247,269
Adjustments to reconcile net income to cash provided by operating activities:				
Equity in undistributed earnings of subsidiaries	(232,970)	(9,305)	(9,708)	(13,891)
Depreciation and amortization of premises and equipment				62,649
Provision for loan losses				137,213
Amortization of intangibles				27,860
Net gain on sale of investment securities available-for-sale	(4,303)		(1,971)	(2,659)
Net loss on disposition of premises and equipment				167
Net gain on sale of loans				(2,265)
Amortization of premiums and accretion of discounts on investments	25			2,920
Increase in loans held-for-sale				(378,955)
Amortization of deferred loan fees and costs				(2,399)
Net increase in trading securities				(96,424)
Net decrease (increase) in interest receivable	136	8	(186)	(36,466)
Net (increase) decrease in other assets	(1,651)	(47)	(974)	76,612
Net increase (decrease) in interest payable	2,376	10	(314)	8,066
Net increase (decrease) in current and deferred taxes	367		4,181	(14,256)
Net increase in postretirement benefit obligation				9,254
Net increase (decrease) in other liabilities	419	(8)	605	4,028
Total adjustments	(235,601)	(9,342)	(8,367)	(218,546)
Net cash (used in) provided by operating activities	(3,253)	(144)	2,096	28,723
Cash flows from investing activities:				
Net (increase) decrease in money market investment	(3,700)	7,769	(95,429)	(335,853)
Purchases of investment securities held-to-maturity				(11,713,516)
Maturities of investment securities held-to-maturity				11,893,268
Purchases of investment securities available-for-sale	(7,362)	(5,006)	(3,277)	(5,357,074)
Maturities of investment securities available-for-sale	5,000			2,810,884
Proceeds from sales of investment securities available-for-sale	7,700		6,971	908,738
Net disbursements on loans	(77,700)		(134,200)	(1,596,811)
Proceeds from sale of loans				740,462
Acquisition of loan portfolios				(62,247)
Capital contribution to Subsidiary	(119,941)	(91,071)	(33,198)	
Assets acquired, net of cash		(29,501)	(89,941)	102,274
Acquisition of premises and equipment				(103,577)
Proceeds from sale of premises and equipment				16,630
Dividends received from subsidiary	70,925			
Net cash (used in) provided by investing activities	(125,078)	(117,809)	(349,074)	(2,696,822)
Cash flows from financing activities:				
Net increase in deposits				1,316,203
Net deposits acquired				36,297
Net (decrease) increase in federal funds purchases and securities sold under agreements to repurchase	(337)	(7,000)	341,700	1,096,236
Net increase (decrease) in other short-term borrowings	222,613	5,000	(5,373)	604,754
Proceeds from issuance of notes payable	115,000			17,893
Payments of notes payable	(144,211)		(78,627)	(151,884)
Dividends paid	(72,021)			(67,925)

Proceeds from issuance of common stock	7,433			
Capital contribution from parent		119,941	89,941	34,327
Net cash provided by (used in) financing activities	128,477	117,941	347,641	2,885,901
Net increase in cash and due from banks	146	(12)	663	217,802
Cash and due from banks at beginning of year	378	35	1,842	467,559
Cash and due from banks at end of year	$ 524	$ 23	$ 2,505	$ 685,361

EXHIBIT 21.1

POPULAR, INC.

AS OF DECEMBER 31, 2000

Subsidiaries of the registrant

Banco Popular de Puerto Rico, (Banco Popular) - A wholly-owned subsidiary Bank, incorporated under the laws of Puerto Rico in 1998.

Popular Leasing & Rental , Inc. (Popular Leasing) - A wholly-owned subsidiary of Banco Popular, incorporated under the laws of Puerto Rico in 1989.

Popular Finance, Inc. (Popular Finance) - A wholly-owned subsidiary of Banco Popular, incorporated under the laws of Puerto Rico in 1989.

Popular Mortgage, Inc. (Popular Mortgage) - A wholly-owned subsidiary of Banco Popular, incorporated under the laws of Puerto Rico in 1995.

Popular International Bank, Inc. - A wholly-owned subsidiary, incorporated under the laws of Puerto Rico in 1992.

ATH Costa Rica, S.A.- A wholly-owned subsidiary of Popular International Bank, Inc., incorporated under the laws of Costa Rica in 1996.

Crest, S.A. - a subsidiary of Popular International Bank, Inc., incorporated under the laws of Costa Rica in 1984.

Popular North America, Inc. - A wholly-owned subsidiary of Popular International Bank, Inc., incorporated under the laws of Delaware in 1991.

Equity One, Inc. - A wholly-owned subsidiary of Popular North America, Inc., incorporated under the laws of Delaware in 1980.

Banco Popular North America - A wholly-owned subsidiary of Popular North America, Inc., incorporated under the laws of New York in 1998.

Popular Leasing, U.S.A. - A wholly-owned subsidiary of Banco Popular North America, incorporated under the laws of Delaware in 1997.

BPNA Real Estate Holdings, Inc. - A wholly-owned subsidiary of Banco Popular North America, incorporated under the laws of New Jersey in 1999.

BPNA Real Estate, Inc. - A wholly-owned subsidiary of BPNA Real Estate Holdings, Inc., incorporated under the laws of New York in 1999.

BanPonce Trust I - A wholly-owned subsidiary of Popular North America, Inc., incorporated under the laws of Delaware in 1997.

Popular Cash Express, Inc. - A wholly-owned subsidiary of Popular North America, Inc., incorporated under the laws of Delaware in 1997.

Banco Popular, National Association - a wholly-owned subsidiary of Popular North America, Inc., incorporated under the laws of Florida in 1999.

Popular Insurance, Inc. - a subsidiary of Banco Popular, N.A., incorporated under the laws of Puerto Rico in 1997.

Popular Securities, Inc. - A wholly-owned subsidiary, incorporated under the laws of Puerto Rico in 1956.

Metropolitana de Prestamos, Inc. - A wholly-owned subsidiary, incorporated under the laws of Puerto Rico in 1961 (Inactive Corporation).

Popular Assets Management, Inc. - A wholly-owned subsidiary, incorporated under the laws of Puerto Rico in 1994 (Inactive Corporation).

Puerto Rico Parking Corporation - A wholly-owned subsidiary, incorporated under the laws of Puerto Rico in 1963 (Inactive Corporation).

GM Group, Inc. - A wholly-owned subsidiary, incorporated under the laws of Puerto Rico in 1989.

Newco Mortgage Holding Corporation (Levitt Mortgage) - A subsidiary incorporated under the laws of Puerto Rico in 1999.

EXHIBIT 23.1

[PRICEWATERHOUSECOOPERS LETTERHEAD]

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-82507) of Popular, Inc. of our report dated February 19, 2001 relating to the financial statements, which appears on page F-29 of the 2000 Annual Report to Shareholders of Popular, Inc., which is incorporated by reference in Popular, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2000.

/s/ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP

San Juan, Puerto Rico

March 16, 2001

EXHIBIT 23.1

[PRICEWATERHOUSECOOPERS LETTERHEAD]

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-80169) of Popular, Inc. of our report dated February 19, 2001 relating to the financial statements, which appears on page F-29 of the 2000 Annual Report to Shareholders of Popular, Inc., which is incorporated by reference in Popular, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2000.

/s/ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP

San Juan, Puerto Rico

March 16, 2001

EXHIBIT 23.1

[PRICEWATERHOUSECOOPERS LETTERHEAD]

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-80167) of Popular, Inc. of our report dated February 19, 2001 relating to the financial statements, which appears on page F-29 of the 2000 Annual Report to Shareholders of Popular, Inc., which is incorporated by reference in Popular, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2000.

/s/ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP

San Juan, Puerto Rico

March 16, 2001

EXHIBIT 23.1

[PRICEWATERHOUSECOOPERS LETTERHEAD]

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-94703) of Popular, Inc. of our report dated February 19, 2001 relating to the financial statements, which appears on page F-29 of the 2000 Annual Report to Shareholders of Popular, Inc., which is incorporated by reference in Popular, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2000.

/s/ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP

San Juan, Puerto Rico

March 16, 2001

EXHIBIT 99.1

POPULAR, INC.
P.O. BOX 362708
SAN JUAN, PUERTO RICO 00936-2708

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MONDAY, APRIL 23, 2001

To the Stockholders of Popular, Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Popular, Inc. (the "Meeting") for the year 2001 will be held at 10:30 a.m. on Monday, April 23, 2001, on the third floor of the Centro Europa Building, in Santurce, Puerto Rico, to consider and act upon the following matters:

(1) To elect four (4) directors of Popular, Inc. (the "Corporation") for a three-year term;

(2) To approve the Corporation's 2001 Stock Option Plan; and

(3) To transact any and all other business as may be properly brought before the Meeting or any adjournments thereof. Management at present knows of no other business to be brought before the Meeting.

Stockholders of record at the close of business on March 5, 2001, are entitled to notice of and to vote at the Meeting.

You are cordially invited to attend the Meeting. Whether you plan to attend or not, please sign and return the enclosed proxy so that the Corporation may be assured of the presence of a quorum at the Meeting. A postage-paid envelope is enclosed for your convenience. REMEMBER THAT YOU CAN VOTE BY TELEPHONE OR BY INTERNET; FOR FURTHER DETAILS PLEASE REFER TO THE ENCLOSED PROXY CARD.

San Juan, Puerto Rico, March 15, 2001.

By Order of the Board of Directors,

SAMUEL T. CESPEDES
Secretary

POPULAR, INC.
P.O. BOX 362708
SAN JUAN, PUERTO RICO 00936-2708

PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MONDAY, APRIL 23, 2001

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Popular, Inc. (the "Corporation") of proxies to be voted at the Annual Meeting of Stockholders (the "Meeting") to be held at 10:30
a.m. on Monday, April 23, 2001, on the third floor of the Centro Europa Building, in Santurce, Puerto Rico, and any adjournments thereof. Enclosed with this Proxy Statement is the Corporation's Annual Report (the "Annual Report"), including the financial statements for the year ended December 31, 2000, duly certified by PricewaterhouseCoopers LLP as independent public accountants. This Proxy Statement, the enclosed Annual Report, the Notice of Annual Meeting of Stockholders and the form of proxy are being sent to stockholders on or about March 15, 2001. Shareholders are entitled to vote by telephone or by Internet following the detailed instructions included in the Proxy Card, as authorized by the Puerto Rico Corporation Law and the Bylaws of the Corporation.

Properly executed proxies received by the Secretary of the Corporation will be voted at the Meeting in accordance with the instructions which appear therein and for the purposes indicated on the Notice of Meeting. The Board of Directors does not intend to present any business at the Meeting other than that described in the Notice of Meeting. The Board of Directors at this time knows of no other matters which may come before the Meeting. However, if any new matters requiring the vote of the stockholders are properly presented before the Meeting, proxies may be voted with respect thereto in accordance with the best judgment of Proxyholders, under the discretionary power granted by stockholders to their proxies in connection with general matters.

SOLICITATION OF PROXIES

In addition to solicitation by mail, management may participate in the solicitation of Proxies by telephone, personal interviews or otherwise. The Board of Directors has engaged the firm of Georgeson & Company Inc. to aid in the solicitation of Proxies. The cost of solicitation will be borne by the Corporation and is estimated at $6,500.

REVOCABILITY OF PROXY

Any stockholder giving a proxy has the power to revoke it before the proxy is exercised. At the Meeting the grantor may revoke the proxy by reclaiming the right to vote the shares of stock registered in the grantor's name or by notice of revocation in writing to the President or Secretary of Popular, Inc., P.O. Box 362708, San Juan, Puerto Rico 00936-2708, delivered before the proxy is exercised.

VOTING SECURITIES

The only outstanding voting securities of the Corporation are its shares of common stock (the "common stock"), each share of which entitles the holder thereof to one vote. Only common stockholders of record at the close of business on March 5, 2001 (the "Record Date"), will be entitled to vote at the Meeting and any adjournments thereof. On the Record Date there were 136,111,025 shares of common stock of Popular, Inc. issued and outstanding. The shares covered by any such proxy that is properly executed and received by management before 10:30 a.m. on the day of the Meeting will be voted.

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of common stock of the Corporation is necessary to constitute a quorum at the Meeting. Votes cast by proxy or in person at the Meeting will be counted by the persons appointed by the Corporation as members of the vote-counting committee for the Meeting. For purposes of determining a quorum, the members of the vote-counting committee will treat abstentions and brokers non-votes as shares that are present and entitled to vote. A broker non-vote results when a broker or nominee has expressly indicated in the proxy that it does not have discretionary authority to vote on a particular matter. As to the election of Directors, the Proxy Card being provided by the Board of Directors enables a stockholder to vote for the election of the nominees proposed by the Board, or to withhold authority to vote for one or more of the nominees being proposed. Directors will be elected by a majority of the votes cast. Therefore, abstentions and broker non-votes will not have an effect on the election of directors of the Corporation. The affirmative vote of the majority of the votes present in person or by proxy by stockholders entitled to vote at the Annual Meeting is required to approve the 2001 Stock Option Plan. Therefore, abstentions shall have the effect of a vote against the proposal. Broker-non-votes will have no effect on the proposal.

PRINCIPAL STOCKHOLDERS

Following is the information, to the extent known by the persons on whose behalf this solicitation is made, with respect to any person (including any "group" as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) who is known to the Corporation to be the beneficial owner of more than five percent (5%) of the Corporation's voting securities.

Title of Class	Name and address of beneficial owner	Amount and nature of beneficial ownership(1)	Percent of Class(2)
Common	Banco Popular de Puerto Rico (the "Bank") as Trustee for the Banco Popular de Puerto Rico Retirement Plan	5,672,860	
	The Bank as Trustee for the Profit Sharing Plan for the Employees of Banco Popular de Puerto Rico (the "Profit Sharing Plan")	5,320,208	
		10,993,068(3)	8.0765
Common	State Farm Mutual Automobile Insurance Company	8,764,924(4)	6.4395

(1) As of February 28, 2001.
(2) Based on 136,111,025 shares of common stock outstanding.
(3) The Bank, as Trustee, of both Plans has sole voting and investment power over the Common Stock held by the Plan. The Bank, as Plan Administrator, administers the Plans through the Administrative Committee.
(4) On February 14, 2001 State Farm Mutual Automobile Insurance Company ("State Farm") and affiliated entities filed a joint statement on Schedule 13-G with the Securities and Exchange Commission reflecting their holdings as of December 31, 2000. According to said statement, State Farm and its affiliates might be deemed to constitute a "group" within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934. State Farm and its affiliates could also be deemed to be the beneficial owners of 8,764,924 shares of the Corporation. However, State Farm and each such affiliate disclaim beneficial ownership as to all shares as to which each such person has no right to receive the proceeds of sale of the shares, and also disclaim that they constitute a "group".

SHARES BENEFICIALLY OWNED BY DIRECTORS, NOMINEES AND EXECUTIVE OFFICERS OF THE CORPORATION AND ITS SUBSIDIARIES

Following is the information, as of February 28, 2001, as to equity securities of the Corporation beneficially owned by all current directors, nominees, the most highly compensated Executive Officers of the Corporation and its subsidiaries who are not directors and the total owned by directors, nominees and the Executive Officers of the Corporation and its subsidiaries as a group:

COMMON STOCK

NAME	TITLE OF CLASS	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS(1)
Juan J. Bermudez	Common	466,373(3)	.3426
Francisco J. Carreras	Common	16,236	.0119
Jose B. Carrion Jr.	Common	1,014,276(4)	.7452
Richard L. Carrion	Common	1,116,023(5)	.8199
David Chafey Jr.	Common	91,926	.0675
Antonio Luis Ferre.	Common	2,916,429(6)	2.1427
Hector R. Gonzalez	Common	635,451(7)	.4669
Jorge A. Junquera	Common	70,370(8)	.0517
Manuel Morales Jr.	Common	630,056(9)	.4629
Alberto M. Paracchini	Common	124,224(10)	.0913
Francisco M. Rexach Jr.	Common	202,588(11)	.1488
Felix J. Serralles Jr.	Common	429,660(12)	.3157
Julio E. Vizcarrondo Jr.	Common	1,402,458(13)	1.0304
Maria Isabel P. de Burckhart	Common	65,977(14)	.0485
Larry B. Kesler	Common	45,879	.0337
Humberto Martin	Common	75,931	.0558
Carlos J. Vazquez	Common	105,777(15)	.0777
Guillermo L. Martinez	Common	2,205,475(16)	1.6204
Kenneth McGrath	Common	6,541	.0048
Cameron E. Williams	Common	483	.0004
All Directors and Executive Officers of the Corporation and its subsidiaries as a group	Common	11,622,133	8.5387

PREFERRED STOCK

Name	Title of Class	Amount and Nature of Beneficial Ownership	Percent of Class (1)
Alberto M. Paracchini	Preferred	7,000	.1750
Carlos J. Vasquez	Preferred	4,568(17)	.1142
All Directors and Executive Officers of the Corporation as a group	Preferred	11,568	.2892

(1) Based on 136,111,025 shares of common stock outstanding.
(2) Based on 4,000,000 shares of preferred stock outstanding.
(3) Excludes 12,443 shares owned by his wife, as to which Mr. Bermudez disclaims beneficial ownership.
(4) Mr. Carrion Jr. owns 708,384 shares, has voting power over 487 shares owned by his daughter and has voting and investment power over 292,606 shares owned by Collosa Corporation which he owns. Excludes 15,808 shares owned by his wife to which he disclaims beneficial ownership. Junior Investment Corporation owns 4,413,399 shares of the Corporation. Mr. Carrion, Jr. owns .29% of the shares of said corporation.

(5) Mr. Carrion owns 301,844 shares and also has indirect investment power over 24,622 shares owned by his children. Junior Investment Corporation owns 4,413,399 shares of the Corporation. Mr. Carrion owns 17.89% of the shares of said corporation.
(6) Mr. Ferre has direct or indirect investment and voting power over 2,916,429 shares of the Corporation. Mr. Ferre owns 3,367 shares and has indirect investment and voting power over 3,200 shares owned by South Management, Inc. and 400 shares owned by his wife. Mr. Ferre owns 51% of Ferre Investment Fund, Inc., which owns 1,464,750 shares of the Corporation. Ferre Investment Fund, Inc. in turn owns 90% of El Dia, Inc., which owns 1,444,712 shares of the Corporation.
(7) Mr. Gonzalez owns 606,099 shares and has voting and investment power over 29,352 shares of the Corporation owned by Ventek Group, Inc. of which he has control.
(8) Mr. Junquera owns 67,395 shares and has indirect investment power over 218 shares owned by his wife and over 2,757 shares owned by his son and daughter.
(9) Mr. Morales owns 215,056 shares and has voting power over 415,000 shares owned by his parents, as their attorney-in-fact.
(10) Excludes 1,264 shares owned by his wife, as to which Mr. Paracchini disclaims beneficial ownership.
(11) Mr. Rexach owns 87,788 shares and has indirect voting power over 95,800 shares owned by his mother, as her attorney-in-fact, and over 19,000 shares held by Capital Assets, Inc. as President and shareholder.
(12) Mr. Serralles owns 226,752 shares, and has indirect voting power over 10,292 shares owned by his wife. Mr. Serralles owns 100% of the shares of Capitanejo, Inc. and Fao Investments, Inc., which own 117,020 and 5,596 shares, respectively, of the Corporation and has indirect ownership of 70,000 shares owned by Destileria Serralles, Inc.
(13) Mr. Vizcarrondo owns 202,914 shares and has indirect voting power over 184,576 shares owned by his wife. Mr. Vizcarrondo's wife owns 18.18% of the shares of Junior Investment Corporation, which owns 4,413,399 shares of the Corporation. Mr. Vizcarrondo has indirect voting and investment power over 1,334 shares held in trust by Vicar Enterprises, Inc. for the benefit of his children, for which he disclaims beneficial ownership. Mr. Vizcarrondo also disclaims beneficial ownership over 131,278 shares owned by DMI Pension Trust, where he serves as trustee and member of the investment committee. There are 120,000 shares belonging to the estate of Mr. Julio Vizcarrondo, Sr., over which Mr. Vizcarrondo, Jr. has investment power, but disclaims beneficial ownership, except for 80,000 shares which Mr. Vizcarrondo, Jr. will inherit once the estate is divided and distributed.
(14) Mrs. Burckhart owns 62,224 shares and has indirect voting power over 3,753 held by her husband as custodian for her daughters.
(15) Mr. Vazquez owns 12,047 shares and has investment authority over 93,730 shares held by various family members.
(16) Mr. Martinez owns 1,136,250 shares and has investment and voting power over 1,069,225 shares owned by family members and various corporations.
(17) Mr. Vazquez has investment authority over 4,568 preferred shares held by various family members.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Corporation's directors and executive officers to file with the Securities and Exchange Commission (SEC) reports of ownership and changes in ownership of common stock of the Corporation. Officers and directors are required by SEC regulation to furnish the Corporation with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such reports furnished to the Corporation or written representations that no other reports were required, the Corporation believes that, with respect to 2000, all filing requirements applicable to its officers and directors were complied with except for one report, covering one transaction, filed late by Mr. Juan J. Bermudez, director of the Corporation.

BOARD OF DIRECTORS AND COMMITTEES;
PROPOSAL 1: ELECTION OF DIRECTORS

The Certificate of Incorporation and the Bylaws of the Corporation establish a classified Board of Directors pursuant to which the Board of Directors is divided into three classes as nearly equal in number as possible, with each class having at least three members and with the term of office of one class expiring each year. Each director serves for a term ending on the date of the third annual meeting of stockholders following the annual meeting at which such director was elected or until his successor has been elected and qualified.

At the Meeting, four (4) directors assigned to "Class 2" are to be elected to serve until the 2004 Annual Meeting of Stockholders or until their respective successors shall have been elected and qualified. The remaining nine directors of the Corporation will serve as directors, as follows: until the 2002 Annual Meeting of Stockholders of the Corporation, in the case of those five directors assigned to "Class 3", and until the 2003 Annual Meeting of Stockholders, in the case of those four directors assigned to "Class 1", or in each case until their successors are elected and qualified.

The people named as proxies in the accompanying Form of Proxy have advised the Corporation that, unless otherwise instructed, they intend to vote at the Meeting the shares covered by the proxies FOR the election of the four nominees named below, and that if any one or more of such nominees should become unavailable for election they intend to vote such shares FOR the election of such substitute nominees as the Board of Directors may propose. The Corporation has no knowledge that any nominee will become unavailable for election.

Information relating to principal occupation and business experience during the past five (5) years (including position held with the Corporation or the Bank), age and the period during which each director has served is set forth below.

NOMINEES FOR ELECTION AS DIRECTORS
CLASS 2 DIRECTORS

(TERMS EXPIRING IN 2004)

JOSE B. CARRION JR: (64 years), Nominee. President of Collosa Corporation. Member of the Board of Directors of Banco Popular de Puerto Rico since April 2000. President and Chief Executive Officer ("CEO") of Barros & Carrion from 1992 to 1999.

HECTOR R. GONZALEZ: (67 years), Director of the Corporation since 1984. President and Chief Executive Officer of TPC Communications of PR, Inc., TPC Cable Media, Inc., TelePonce Cable TV, Inc. and Telecell Systems, Inc. owner and operator of cable television systems. General Partner of Ventek Group, Inc., and investor in broadband and telecommunications related businesses. Director of the Bank, Popular Finance, Inc., Popular Mortgage, Inc., Popular Leasing & Rental, Inc. and Popular Securities, Inc.

MANUEL MORALES JR.: (55 years), Director of the Corporation since 1990. President of Selarom Capital Group, Inc. President of Parkview Realty, Inc., the Atrium Office Center, Inc., HQ Business Center P.R., Inc., ExecuTrain of Puerto Rico and Office & Home, Inc. Honorary General Consul of Japan in San Juan, Puerto Rico. Member of the Board of Trustees of Sacred Heart University in San Juan, Puerto Rico, of the Caribbean Environmental Development Institute and of Fundacion Angel Ramos, Inc. Member of the National Advisory Council-United States Small Business Administration. Director of Casiano Communications, Inc., Rafael J. Nido, Inc. and Cortes Industrial Organization. Member of the Board of Trustees of Fundacion Banco Popular, Inc. Chairman of the Audit Committee of the Corporation and the Bank. Director of the Bank.

JULIO E. VIZCARRONDO JR.: (66 years), Director of the Corporation since 1990. Civil Engineer. President, Partner and Chief Executive Officer of Desarrollos Metropolitanos, S.E., VMV Enterprises Corp., Resort Builders, S.E., Metropolitan Builders, S.E, Institutional Builders, S.E., Omega-Vistamar, S.E. and MH Office Building Corp., corporations engaged in the development and construction of residential, commercial, industrial and institutional projects in Puerto Rico. Director of the Bank, Popular International Bank, Inc., Popular North America, Inc., Banco Popular North America, Popular Cash Express, Inc. and Equity One, Inc.

CLASS 1 DIRECTORS

(TERMS EXPIRING IN 2003)

JUAN J. BERMUDEZ: (63 years), Director of the Corporation since 1990. Electrical Engineer. Partner of Bermudez and Longo, S.E., Desemcor, S.E., Unicenter, S.E., Unieast, S.E., Unigardens, S.E., Clearview, S.E., Placid Park, S.E. and PCME Commercial, S.E. Principal Stockholder and Director of BL Management, Corp., Paseomar Corp., PCME Development, Inc., G.S.P. Corp., Unimanagement Corp., Desemcor Management, Inc., LBB Properties, Inc. and Homes Unlimited Corp. Director of the Bank, Popular Securities, Inc., Popular Leasing & Rental, Inc., Popular Finance, Inc. and Popular Mortgage, Inc. Chairman of the Trust Committee of the Bank.

RICHARD L. CARRION: (48 years), Director of the Corporation since 1990. Chairman, President and Chief Executive Officer ("CEO") of the Corporation and the Bank. Chairman of Popular International Bank, Inc., Popular North America, Inc., Banco Popular North America, Popular Cash Express, Inc. and Banco Popular, National Association. Chairman of the

Board of Trustees of Fundacion Banco Popular, Inc. Director of Equity One, Inc., Popular Finance, Inc., Popular Leasing & Rental, Inc., Popular Mortgage, Inc., Popular Securities, Inc., Popular Insurance, Inc. and GM Group, Inc. Member of the International Olympic Committee. President of the Puerto Rico Olympic Trust and Member of the Puerto Rico Olympic Committee. Member of the Board of Trustees of the Puerto Rico Committee for Economic Development. Member of the Board of Directors and Benefits & Human Resources Committee of Verizon Communications (a registered public company). Member of the Board of Director and Compensation and Benefits Committee of American Home Products Corporation (a registered public company). Former Chairman and President of Puerto Rico Investors Tax-Free Fund, Inc. I, II, III, IV, V (1994 to December 1998) and of Puerto Rico Tax-Free Target Maturity Fund, Inc. I (1996 to December 1998) and II (1997 to December 1998). Former Chairman and President of Puerto Rico Investors Flexible Allocation Fund (December 1998 to January 1999). Former Member of the Board of the National Museum of American History, Smithsonian Institution (November 1997 to December 1998). Member of the Board of Directors of Telecomunicaciones de Puerto Rico, Inc. (TELPRI).

JORGE A. JUNQUERA: (52 years), Director of the Corporation since 1990. Chief Financial Officer ("CFO") of the Corporation and the Bank. Supervisor of the Financial Management Group, the U.S. Operations and the Caribbean and Latin America Expansion Group since January 1996. Supervisor of the Bank's Retail Banking Group until December 1995. Senior Executive Vice President since October 1995. President and Director of Popular International Bank, Inc. and Popular North America, Inc. since January 1996. Director and President of Banco Popular North America and Banco Popular, National Association. Director of Equity One, Inc., ATH Dominicana, S.A., New America Alliance (a registered public company), Virtual, Inc. (an internet company) and Popular Cash Express, Inc. Chairman of the Board of Popular Securities, Inc. Director of Popular Mortgage, Inc., Popular Finance, Inc. and Popular Leasing & Rental, Inc. until December 1998 and of Banco Popular de Puerto Rico until April 2000. President of Puerto Rico Tourism Company until February 1997 and Director until April, 2000. President of Hotel Development Co. until April, 2000. Director of YMCA until May, 2000 and of PRISMA: El Exploratorio, Inc. until April, 2000.

FRANCISCO M. REXACH JR.: (63 years), Director of the Corporation since 1990. President of Ready Mix Concrete, Inc., a subsidiary of PRCC (a registered public company) until September 1997. President of Capital Assets, Inc. and of Rexach Consulting Group. Director of the Bank, Popular International Bank, Inc., Popular North America, Inc., Banco Popular North America, Popular Cash Express, Inc. and Equity One, Inc. Chairman of the Human Resources and Compensation Committee of the Bank.

CLASS 3 DIRECTORS
(TERMS EXPIRING IN 2002)

FRANCISCO J. CARRERAS: (68 years), Director of the Corporation since 1990. Former professor of the University of Puerto Rico. Former President of the Catholic University of PR. Member of the Board of Trustees of Fundacion Banco Popular, Inc. Executive Director of Fundacion Angel Ramos, Inc. Chairman of the Community Reinvestment Committee of the Bank. Director of the Bank.

DAVID H. CHAFEY JR.: (47 years), Director of the Corporation since 1996. Supervisor of the Bank's Retail Banking Group since January 1996. Supervisor of the Financial Management Group and U.S. Operations until December 1995. Senior Executive Vice President since October 1995. Chairman of Popular Securities, Inc. until January 1996. Senior Executive Vice President of Popular International Bank, Inc. and Popular North America, Inc. President of Popular International Bank, Inc. and Popular North America, Inc. until December 1995. Director of the Bank, Popular Mortgage, Inc., Popular Leasing & Rental, Inc., GM Group, Inc., Banco Popular, National Association, Popular Insurance, Inc. and Popular Securities, Inc. Director of Equity One, Inc. and Banco Popular North America until December 1999. Chairman of the Board of Popular Finance, Inc. Chairman of the Board of Puerto Rico Telephone Authority from 1993 thru 1997. Chairman and President of Puerto Rico Investors Tax-Free Fund, Inc. I, II, III, IV, V, VI, of Puerto Rico Tax-Free Target Maturity Fund, Inc. I and II and of Puerto Rico Investors Flexible Allocation Fund since January 1999. Chairman of the Board of Grupo Guayacan, Inc. President of the San Jorge Children's Research Foundation, Inc. President of the Puerto Rico Bankers Association. Director of Visa International for the Caribbean and Latin America.

ANTONIO LUIS FERRE: (67 years), Director of the Corporation since 1984. Vice Chairman of the Board of Directors of the Corporation and the Bank. Chairman of the Board of Puerto Rican Cement Co., Inc. (a registered public company), manufacturers of cement and allied products. Chairman of the Board and Editor of

El Dia, Inc. and of Primera Hora, newspaper publishing companies. President of Advanced Graphic Printing, a commercial printing company. Chairman of the Board of Virtual, Inc., an internet company. Director of Metropolitan Life Insurance Company (a registered company under the Investment Company Act of 1940) until December 1995.

ALBERTO M. PARACCHINI: (68 years), Director of the Corporation since 1984. Former Chairman of the Board of Directors of the Corporation and the Bank. Former Chairman of Popular North America, Inc., Equity One, Inc., Popular Finance, Inc. and Popular Leasing & Rental, Inc. Member of the Board of Trustees of Fundacion Banco Popular, Inc. Chairman of the Board of Trustees of Sacred Heart University in San Juan, Puerto Rico. Director of Puerto Rican Cement Co., Inc. (a registered public company). Director of Equus Management Co., Inc., Managing General Partner of Equus Gaming Co., L.P. (a registered public company). Director of Equus Entertainment Corporation, a subsidiary of Equus Gaming Co., L.P. (registered public company) and of Venture Capital Fund, Inc. Chairman of the Risk Management Committee of the Corporation. Director of the Bank.

FELIX J. SERRALLES JR.: (66 years), Director of the Corporation since 1984. President and Chief Executive Officer of Destileria Serralles, Inc., manufacturers and distributors of distilled spirits, and of its affiliate Mercedita Leasing, Inc. Director of the Bank, Popular International Bank, Inc., Popular North America, Inc., Banco Popular North America, Popular Cash Express, Inc. and Equity One, Inc.

The Board of Directors of the Corporation met on a monthly basis during 2000. All directors except Mr. Antonio Luis Ferre attended to 75% or more to the meetings of the Board of Directors and the committees of the Board of Directors on which such directors served.

STANDING COMMITTEES

The Corporation's Board of Directors (the "Board") has standing Audit and Risk Management Committees. The Board of Directors of the Bank, the principal subsidiary of the Corporation, has a standing Human Resources and Compensation Committee that may review compensation matters for the Corporation. Nominations are made by the Board.

AUDIT COMMITTEE

The Audit Committee consists of the following members of the Corporation's Board of Directors: Juan J. Bermudez, Hector R. Gonzalez, Manuel Morales Jr., Alberto M. Paracchini, Francisco M. Rexach Jr. and Felix J. Serralles Jr. The Board of Directors, in its business judgment, has determined that each of the members of the Audit Committee is "independent" as required by applicable listing rules of the National Association of Securities Dealers. The Audit Committee held seven meetings during the fiscal year ended December 3l, 2000.

AUDIT COMMITTEE REPORT

The role of the Audit Committee is to assist the Board in its oversight of the Corporation's financial reporting process. The Committee operates pursuant to a Charter that was last amended and restated by the Board on March 7, 2001, a copy of which is attached to this Proxy Statement as Exhibit A.

In the performance of its oversight function, the Committee has considered and discussed the audited financial statements of the Corporation for the fiscal year ended December 31, 2000 with management and the independent accountants. The Audit Committee has also discussed with the independent accountants the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as currently modified or supplemented. Finally, the Committee has received the written disclosures and the letter from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committees), as currently modified or supplemented, has considered whether the provision of non-audit-services by the independent accountants to the Corporation is compatible with maintaining the accountants' independence, and has discussed with the independent accountants the accountants' independence from the Corporation and its management. These considerations and discussions, however, are not designed to provide any assurance that the audit of the Corporation's financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles or that the Company's auditors are in fact "independent."

As set forth in the Charter, management of the Corporation is responsible for the preparation, presentation and integrity of the Corporation's financial statements, the Corporation's accounting and financial reporting principles, and internal controls designed to achieve compliance with accounting standards and applicable laws and regulations. PricewaterhouseCoopers LLP, the Corporation's independent public accountants, are responsible for auditing the Corporation's financial statements and expressing an opinion as to their conformity with generally accepted accounting principles.

Also as required by the Charter, the members of the Audit Committee are not engaged professionally in the practice of auditing or accounting, are not experts in the fields of accounting or auditing, including matters relating to the determination of the independence of outside auditors, and are not full-time employees of the Corporation. The Corporation's management is responsible for its accounting, financial management and internal controls. Moreover, the Committee relies on and makes no independent verification of the facts presented to it or representations made by management or the independent accountants. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles and policies, or internal controls and procedures, designed to achieve compliance with accounting standards and applicable laws and regulations.

Based on the Audit Committee's consideration of the audited financial statements and the discussions referred to above with management and the independent accountants and subject to the limitations on the role and responsibilities of the Audit Committee set forth in the Charter and those discussed above, the Committee recommended to the Board that the Corporation's audited financial statements be included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2000 for filing with the SEC.

HUMAN RESOURCES AND COMPENSATION COMMITTEE

The functions of the Human Resources and Compensation Committee include reviewing the compensation and benefits of management and employees, reviewing the policies related to the performance and compensation of management and employees, and reviewing the long-range planning for executive development and succession. The Committee held two meetings during the fiscal year ended December 31, 2000.

The Committee members during 2000 were: Juan A. Albors, Francisco J. Carreras, Maria Luisa Ferre, Hector R. Gonzalez, Alberto M. Paracchini and Francisco M. Rexach Jr. None of the members of the Committee are officers or employees of the Corporation or any of its subsidiaries.

COMPENSATION OF DIRECTORS

Directors who are not employees of the Corporation and its subsidiaries were entitled to a $12,000 annual retainer. The Board has a Stock Deferment Plan, pursuant to which each outside director of the Corporation is given the option to defer all or a portion of the $12,000 annual retainer. The deferred portion, plus an additional amount of $0.25 for each dollar so deferred, is applied toward the purchase in the open market of shares of the Corporation's common stock on behalf of the director. The certificates representing such shares are retained by the Corporation until the director's term in office as a director of the Corporation (and the Bank) terminates. In addition, each director has the right to vote and to receive any dividends payable on the shares held for said director under the Plan, but no such shares may be sold, transferred, assigned, pledged or in any other way encumbered by the director until the certificates representing such shares are delivered to the director. In the event that a director is duly removed from office for cause, said director (1) shall be obliged to sell to the Corporation all of the shares acquired with the deferred retainer amount at a price equal to the lower of (a) the actual purchase price of said shares and (b) the market price of said shares on the date the director was discharged, and (2) shall forfeit to the Corporation any shares purchased with the Corporation's additional contribution.

In addition, directors receive $750 for attending each Board meeting and $500 for attending each of the other committee meetings. Directors who are employees do not receive fees for attending Board and committee meetings.

EXECUTIVE OFFICERS

The following information sets forth the names of the executive officers (the "Executive Officers") of the

Corporation including their age, business experience during the past five (5) years and the period during which each such person has served as an Executive Officer of the Corporation or the Bank.

RICHARD L. CARRION: (48 years), Chairman, President and CEO of the Corporation. Executive Officer of the Corporation since 1990. For information about principal occupation and business experience during the past five years please refer to the Board of Directors section.

JORGE A. JUNQUERA: (52 years), Senior Executive Vice President of the Corporation. Executive Officer of the Corporation since 1990. For information about principal occupation and business experience during the past five years please refer to the Board of Directors section.

DAVID H. CHAFEY JR.: (47 years), Senior Executive Vice President of the Corporation. Executive Officer of the Corporation since 1990. For information about principal occupation and business experience during the past five years please refer to the Board of Directors section.

MARIA ISABEL P. DE BURCKHART: (52 years), Executive Vice President of the Corporation. Executive Officer of the Corporation since 1990. Supervisor of the Administration Group. Executive Vice President of the Bank since January 1990. Executive Vice President of Popular International Bank, Inc. and Popular North America, Inc. Member of the Board of Trustees of Fundacion Banco Popular, Inc. Member of the Board of Directors of Fundacion Ana G. Mendez and of Puerto Rico Community Foundation. Member of the Board of Directors of the Puerto Rico Convention Bureau from 1993 through October 1998. Secretary of the Board of Directors of the Bankers Club since 1998.

ROBERTO R. HERENCIA: (41 years), Executive Vice President of the Corporation. Executive Officer of the Corporation since 1997. Head of the Corporation's U.S. business expansion. Executive Vice President of the Bank since January 1997. Director of Popular International Bank, Inc., Popular North America, Inc., Popular Cash Express, Inc., Banco Popular, National Association and Equity One, Inc. Director and Chief Operations Officer of Banco Popular North America. Senior Vice President from December 1991 to December 1996.

LARRY B. KESLER: (63 years), Executive Vice President of the Corporation. Executive Officer of the Corporation since 1990. Supervisor of the Consumer Credit Group and the Virgin Islands Region. Executive Vice President of the Bank since January 1990. Chairman of the Board of Directors of Equity One, Inc., Popular Leasing & Rental, Inc., Popular Mortgage, Inc. and Popular Insurance, Inc. Executive Vice President of Popular International Bank, Inc. and Popular North America, Inc. Director of Popular Finance, Inc. and Banco Popular, National Association.

TERE LOUBRIEL: (48 years), Executive Vice President of the Corporation since February 2001. General Auditor of the Bank from December 1989 to 1995. Quality Office Manager of the Corporation from November 1995 to 1997. Year 2000 Office Manager of the Corporation from December 1997 to 2000. Director of Human Resources since April 2000.

HUMBERTO MARTIN: (55 years), Executive Vice President of the Corporation. Executive Officer of the Corporation since 1986. Supervisor of the Operations Group. Director of ATH Dominicana, S.A. Executive Vice President of the Bank since November 1986. Executive Vice President of Popular International Bank, Inc. and Popular North America, Inc. Director of GM Group, Inc.

EMILIO E. PINERO: (52 years), Executive Vice President of the Corporation. Executive Officer of the Corporation since 1990. Supervisor of the Commercial Banking Group. Executive Vice President of the Bank since January 1990. Director of Popular Mortgage, Inc. and Popular Leasing & Rental, Inc. Executive Vice President of Popular International Bank, Inc. and Popular North America, Inc. Member of the Board of Trustees of American Red Cross, Fundacion Luis Munoz Marin, Fundacion del Colegio de CPA de Puerto Rico and Jane Stern Community Library Foundation.

BRUNILDA SANTOS DE ALVAREZ: (42 years), Executive Vice President of the Corporation since February 2001. General Counsel of the Corporation since 1997. Assistant Secretary of the Board of Directors of the Corporation and the Bank since May 1994. Secretary of the Board of Directors of Popular International Bank, Inc., Banco Popular North America, GM Group, Inc., Popular Cash Express, Inc., Banco Popular, National Association and Popular Insurance, Inc. Assistant Secretary of the Board of Directors of Equity One, Inc., Popular Leasing & Rental, Inc., Popular Finance, Inc., Popular Mortgage, Inc. and Popular North America, Inc. Secretary of the Board of Directors of Puerto Rico Investor Tax Free Fund, Inc. I, II, III, IV, V, VI of Puerto Rico Tax Free Target Maturity Fund, Inc. I and II, and of Puerto Rico Investors Flexible Allocation Fund, Inc.

Senior Vice President from March 1996 until January 2001.

CARLOS J. VAZQUEZ: (42 years), Executive Vice President of the Corporation. Executive Officer of the Corporation since 1997. Supervisor of the Corporation's Risk Management Group. Executive Vice President of the Bank since March 1997. Director of Popular Securities, Inc. Vice President of J.P. Morgan & Co. Inc., Morgan Guaranty Trust Co. of N.Y., J.P. Morgan Securities Ltd. and J.P. Morgan Securities, Inc. from 1982 to 1997. President of J.P. Morgan Venezuela, S.A. from 1995 to 1997.

SAMUEL T. CESPEDES: (64 years), Secretary of the Board of Directors. Attorney-at-Law. Proprietary partner of the law firm McConnell Valdes. Secretary of the Board of Directors of the Corporation and the Bank since 1991. Secretary of the Board of Directors of Popular North America, Inc., Popular Leasing & Rental, Inc. and Popular Finance, Inc.

FAMILY RELATIONSHIPS

Mr. Richard L. Carrion, Chairman of the Board, President and CEO of the Corporation and the Bank, is brother-in-law of Mr. Julio E. Vizcarrondo Jr. and first cousin of Mr. Jose B. Carrion Jr., nominee.

OTHER RELATIONSHIPS, TRANSACTIONS AND EVENTS

During 2000 the Bank engaged the legal services of the law firm of McConnell Valdes of which Mr. Samuel T. Cespedes, Secretary of the Board of Directors of the Corporation and the Bank is a partner. The amount of fees paid to McConnell Valdes did not exceed 5% of the law firms' revenues for its last full fiscal year. The Corporation also engaged, in the ordinary course of business the legal services of Pietrantoni, Mendez & Alvarez, LLP of which Mr. Ignacio Alvarez and Mr. Antonio Santos, husband and brother, respectively, of Mrs. Brunilda Santos de Alvarez, Executive Officer of the Corporation since February 2001, are partners.

The Bank has had loan transactions with the Corporation's directors and officers, and with their associates, and proposes to continue such transactions in the ordinary course of its business, on substantially the same terms as those prevailing for comparable loan transactions with other people and subject to the provisions of the Banking Act of the Commonwealth of Puerto Rico and the applicable federal laws and regulations. The extensions of credit have not involved and do not currently involve more than normal risks of collectibility or other unfavorable features.

PROPOSAL 2: APPROVAL OF THE 2001 STOCK OPTION PLAN

INTRODUCTION

Effective March 7, 2001, the Board of Directors adopted, subject to shareholder approval, the 2001 Stock Option Plan (the "2001 Option Plan").

The principal features of the 2001 Option Plan are summarized below. The summary is qualified by the complete text of the 2001 Option Plan, a copy of which is attached as Exhibit B to this Proxy Statement.

PURPOSE

The 2001 Option Plan is intended to provide the Corporation and its subsidiaries with an effective means to attract and retain highly qualified personnel as well as to provide additional incentive to employees and directors who provide services to the Corporation and its subsidiaries.

ADMINISTRATION OF PLAN

The 2001 Option Plan provides that unless the Board of Directors appoints a committee to oversee the administration of the Plan (the "Committee"), the Board of Directors shall have general authority to administer the Plan, to grant options, make determinations under, interpretations of, and to take such steps in connection with the Plan and the options granted thereunder as it may deem necessary or advisable. If the Committee is appointed by the Board of Directors to administer the Plan, the Committee will consist of at least two directors appointed by the Board, each of whom is a "Non-Employee Director" within the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934. The Board of Directors or the Committee will have general authority to administer the plan, including the authority to determine the form of the option agreements to

be used under the plan, and the terms and conditions to be included in such option agreements, subject to the

ratification of the Board of Directors if such limitation is imposed by the Board of Directors.

NUMBER OF AUTHORIZED SHARES

Under the 2001 Option Plan, 5,000,000 shares of Common Stock, subject to adjustment for stock splits, recapitalizations and similar events, will be available for use. The shares are to be made available from authorized but unissued shares of Common Stock or treasury stock. Based upon the closing sale price of the Corporation's Common Stock on February 28, 2001, of $27.25 per share, the aggregate market value of the 5,000,000 shares to be reserved under the 2001 Option Plan is $136,250,000.

Previously owned shares that are tendered by an employee or non-employee director to pay the exercise price of an option and shares used to pay withholding taxes will not be counted towards the maximum number of shares available for issuance under the 2001 Option Plan.

ELIGIBILITY

Any employee or director of the Corporation or of any of its subsidiaries, is eligible to participate in the 2001 Option Plan. The selection of individuals eligible to participate is within the discretion of the Board of Directors, or the Committee. As of December 31, 2000, the approximate number of directors and employees of the Corporation and its subsidiaries that are eligible to participate in the 2001 Option Plan is 80. Since the selection of participants and awards granted will be within the discretion of the Board of Directors or the Committee, it is not possible to state the number of directors and employees that will participate in the 2001 Option Plan or the amount and value of awards to be granted to such persons under the 2001 Option Plan.

AWARDS UNDER PLAN

The 2001 Option Plan provides for the grant of stock options that are intended to qualify as "qualified stock options" ("QSOs") under Section 1046 of the Puerto Rico Internal Revenue Code of 1994, as amended (the "Puerto Rico Code"), as "incentive stock options" ("ISOs") under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") or "non-statutory stock options" ("NSOs"). At the time of original grant of NSO, the Board of Directors or the Committee, may also authorize the grant of reload options, which shall be NSO's for such number of shares of Common Stock as were used by the Participant to pay the purchase price upon the exercise of previously granted options and the withholding taxes applicable to a NSO exercise, but are still subject to other terms set forth in the 2001 Option Plan.

The exercise price with respect to options to be granted under the 2001 Option Plan will be determined by the Board of Directors or the Committee at the time of grant. Under the 2001 Option Plan, the option exercise price may not be less than 100% of the fair market value of the Common Stock on the date of grant. Fair market value is defined as the closing price of the Common Stock on the date of grant as reported on the NASDAQ National market system or, if no price is reported on such day, then on the next preceding day on which such price was reported. Payments for shares upon exercise of stock options may be made either by check, with the consent of the Board of Directors or the Committee, by exchanging shares of Common Stock which have been held for at least six months at their fair market value, if approved by the Board of Directors or the Committee, by authorizing the Corporation, Popular Securities, Inc. or any other broker-dealer approved by the Corporation to sell, on behalf of the optionee, the appropriate number of shares otherwise issuable to the optionee, upon exercise of an option, with the consent of the Board of Directors or the Committee, and at the election of the optionee, by withholding from those shares that would otherwise be obtained upon exercise of the option, or number of shares having a fair market value equal to the option price or a combination of these methods. The 2001 Option Plan does not permit the Board of Directors or the Committee to reprice any previously granted options.

No person may receive an ISO if, at the time of grant, such person (a "10% Holder") owns directly or indirectly more than 10% of the total combined voting power of all classes of stock of the Corporation unless the option price is at least 110% of the fair market value of the Common Stock and such option is not exercisable more than five years after its date of grant. There is also a $100,000 limit on the value of stock determined at the time of grant of a QSO or an ISO that may become exercisable for the first time in any calendar year.

The maximum option term is ten years from the date of grant, except for 10% Holders in the case of ISOs, in which case the maximum term is five years. Unless an option agreement provides otherwise, all options granted are 20% exercisable after the first year and an additional 20% is exercisable after each subsequent year. No option may be granted more than 10 years after the effective date of the 2001 Option Plan, which shall be March 7, 2001.

TERMINATION OF OPTIONS

Unless earlier terminated in accordance with its terms, a vested option shall expire six months after any of the following: (i) voluntary termination of employment by the employee, with or without the consent of the Corporation or any Subsidiary for reasons other than disability or retirement under a retirement plan of the Corporation or any subsidiary, or (ii) termination of employment by the Corporation or any subsidiary, with or without cause, or (iii) termination of employment because the employing subsidiary ceased to be a subsidiary of the Corporation and the employee does not, prior thereto or contemporaneously therewith, become an employee of the Corporation or of another subsidiary.

Notwithstanding the foregoing provisions, the Committee may, in its sole discretion, at the time of grant establish different terms and conditions pertaining to the effect of an optionee's termination of employment on the exercisability of options.

Unless earlier terminated in accordance with its terms, all options, whether vested or not, awarded to an employee who terminates employment or is discharged due with cause by appropriate corporate action or under authority of law shall terminate immediately upon such termination of employment or discharge.

Unless earlier expired in accordance with its terms, all options held by an employee shall become vested immediately upon the employee's termination of employment due to retirement under the terms of the retirement plan of the Corporation or the subsidiary employing the employee or due to the employee's disability. The employee so terminating employment due to retirement or disability shall have until the option expiration date to exercise the options awarded to him.

If the holder of an option shall die during the term of an option, the option shall become immediately vested and the holder or the legal representatives shall be entitled to exercise the option in whole or in part, to the extent then unexercised, at any time within one year following the death of the optionee, but in no event after the option expiration date.

If a nonemployee director shall terminate his service as a director for reasons other than removal for cause by appropriate Corporate action or under authority of law, all unexpired options held by the nonemployee director which have not vested shall become vested immediately. The nonemployee director so terminating his service as a director shall have until the option expiration date to exercise the options awarded to him.

Unless earlier terminated in accordance with its terms, a vested option awarded to a nonemployee director who terminates his service as a director due to removal for cause by appropriate corporate action or under authority of law shall terminate immediately upon terminate of service as a director.

CHANGE IN CONTROL

Under the 2001 Option Plan, upon the occurrence of certain "change of control" transactions involving the Corporation, all options then outstanding under the 2001 Option Plan become immediately exercisable.

AMENDMENTS AND TERMINATION

The Corporation's Board of Directors may suspend, amend, modify or terminate the 2001 Option Plan, without shareholder approval except to the extent required by the Puerto Rico Code or the Code to permit the granting of QSOs or ISOs under the 2001 Option Plan or by the rules of any securities exchanges or automated quotation system on which the shares of Common Stock of the Corporation trade. If the Board of Directors voluntarily submits a proposed amendment, supplement, modification or termination for stockholder approval, such submission will not require any further amendments, supplements or terminations (whether or not relating to the same provision or subject matter) to be similarly submitted for stockholder approval.

Unless previously terminated, the 2001 Option Plan will terminate on March 7, 2011, the tenth anniversary of the effective date of the 2001 Option Plan. Options may not be granted under the 2001 Option Plan after such date. Awards granted prior to termination of the 2001 Option Plan shall continue in accordance with their terms following such termination. No amendment, suspension, modification or termination of the 2001 Option Plan shall adversely affect the rights of an employee in awards previously granted without such employee's consent.

TAX WITHHOLDING AND TAX OFFSET PAYMENTS

The Board of Directors or the Committee may require payment, or withhold payments made by the 2001 Option Plan, in order to satisfy applicable withholding tax requirements. The Board of Directors or the Committee may authorize tax offset payments to assist employees or directors in paying income taxes incurred as a result of their participation in the 2001 Option Plan. The amount of the tax offset payments shall be determined by multiplying a percentage (established by the Committee) by all or a portion of the taxable income recognized by an employee upon: (i) the exercise of a NSO or (ii) the disposition of shares received upon exercise of a QSO or an ISO.

INCOME TAX CONSEQUENCES

PUERTO RICO CODE. A recipient of a QSO does not recognize income at the time of the grant of an option. In addition, no income is recognized at the time a QSO is exercised. On a subsequent sale or exchange of the shares acquired pursuant to the exercise of a QSO, the optionee may have taxable long-term or short-term capital gain or loss, depending on whether the shares were held for more than six months, measured by the difference between the amount realized on the disposition of such shares and his or her tax basis in such shares. Tax basis will, in general, be the amount paid for the shares. The Corporation or the subsidiary employing the optionee will not be entitled to a business expense deduction in respect of the grant of the option, the exercise thereof or the disposition of the shares.

With respect to a NSO, a recipient of a NSO does not recognize income at the time of grant of the NSO. The difference between the fair market value of the shares of stock on the date of exercise and the stock option exercise price generally will be treated as compensation income upon exercise, and the Corporation or the subsidiary employing the optionee will be entitled to a deduction in the amount of income so recognized by the optionee. Upon a subsequent disposition of the shares, the difference between the amount received by the optionee and the fair market value of the shares of stock on the option exercise date will be treated as long or short-term capital gain or loss, depending on whether the shares were held for more than six months.

FEDERAL INCOME TAX CONSEQUENCES. The Corporation is organized under the laws of the Commonwealth of Puerto Rico and, at the present time, it is not engaged in any trade or business in the United States. Accordingly, it is subject generally to a flat 30% federal income tax on its fixed or determinable, annual or periodic income, if any, from sources within the United States. The Corporation would only be entitled to claim deductions in computing its U.S. income tax liability to the extent such deductions were directly related to any income effectively connected with the conduct of a trade or business in the United States. For purposes of the discussion below, some of the QSOs granted under the 2001 Option Plan may also be treated as ISOs for purposes of Sections 421 and 422 of the Code.

RESIDENTS OF PUERTO RICO. Recipients of stock options who are residents of Puerto Rico during the entire taxable year and perform services for the Corporation or its subsidiaries in Puerto Rico, will not have any gross income for federal income tax purposes in respect of the grant or the exercise of stock options.

NON-RESIDENTS OF PUERTO RICO AND RESIDENTS OF PUERTO RICO WHO PERFORM SERVICES OUTSIDE OF PUERTO RICO. In general, an optionee, who is a non-resident of Puerto Rico or a resident of Puerto Rico who performs services outside Puerto Rico, will not recognize taxable income upon grant or exercise of an ISO and the Corporation and its subsidiaries will not be entitled to any business expense deduction with respect to the grant or exercise of an ISO. However, upon the exercise of an ISO, the excess of the fair market value on the date of exercise of the shares received over the exercise price of the shares will be treated as an adjustment to alternative minimum taxable income. In order for the exercise of an ISO to qualify for the foregoing tax treatment, the optionee generally must be an employee or director of the Corporation or its subsidiaries (within the meaning of Section 422 of the Code) from the date the ISO is granted through the date three months before the date of exercise.

If the optionee has held the shares acquired upon exercise of an ISO for at least two years after the date of grant and for at least one year after the date of exercise, upon disposition of the shares by the optionee, the difference, if any, between the sales price of the shares and the exercise price of the option will be treated as long-term capital gain or loss. If the optionee does not satisfy these holding period requirements, the optionee will recognize ordinary income at the time of the disposition of the shares, generally in an amount equal to excess of the fair market value of the shares at the time the option was exercised over the exercise price of the option. The balance of the gain realized, if any, will be long-term or short-term capital gain, depending upon whether or not the shares were sold more than one year after the option was exercised. If the optionee sells the shares prior to the satisfaction of the holding period requirements but at a price below the fair market value of the shares at the time the option was exercised, the amount of ordinary income will be limited to the amount realized on the sale over the exercise price of the option. Subject to any limitations imposed by Section 162(m) of the Code for federal income tax purposes, the optionee including such compensation in income and certain reporting requirements, the Corporation and its subsidiaries will be allowed a business expense deduction to the extent the optionee recognized ordinary income. Upon any subsequent sale of the shares, the optionee will have taxable gain or loss, measured by the difference between the amount realized on the disposition and the tax basis of the shares (generally, the amount paid for the shares plus the amount treated as ordinary income at the time the option was exercised).

In general, an optionee, who is a non-resident of Puerto Rico or a resident of Puerto Rico who performs services outside of Puerto Rico, to whom an NSO is granted will recognize no income at the time of the grant of the option. Upon exercise of an NSO, an optionee will recognize ordinary income in an amount equal to the excess of the fair market value of the shares on the date of exercise over the exercise price of the option (or, if the optionee is subject to restrictions imposed by Section 16(b) of the Securities Exchange Act of 1934, upon the lapse of those restrictions, unless the optionee makes a special election within 30 days after exercise to have income determined without regard to the restrictions). Subject to any limitations imposed Section 162(m) of the Code for federal income tax purpose, the director or employee including such compensation in income and certain reporting requirements, the Corporation or any of its subsidiaries will be entitled to a tax deduction in the same amount. Upon a subsequent sale of the shares, the optionee will have taxable gain or loss, measured by the difference between the amount realized on the disposition and the tax basis of the shares (generally, the amount paid for the shares plus the amount treated as ordinary income at the time the option was exercised).

Under the 2001 Option Plan, upon the occurrence of certain "change in control" transactions involving the Corporation, all options then outstanding under the 2001 Option Plan become immediately exercisable. Under certain circumstances, compensation payments attributable to such options may be treated as "parachute payments" under the Code, in which case a portion of such payments may be nondeductible to the Corporation or its subsidiaries for federal income tax purposes and the recipient, if a non-resident of Puerto Rico or a resident of Puerto Rico who performs services outside of Puerto Rico, may be subject to a 20% excise tax under the Code.

The Board of Directors recommends that stockholders vote FOR the approval of the 2001 Stock Option Plan.

EXECUTIVE COMPENSATION PROGRAM
REPORT OF THE BANKS HUMAN RESOURCES AND COMPENSATION COMMITTEE
ON EXECUTIVE COMPENSATION

OVERVIEW

The Bank's Human Resources and Compensation Committee (the "Human Resources Committee") consists of six non-employee directors of the Bank. The Committee endeavors to keep abreast of competitive compensation practices with regard to salaries, incentive compensation and supplemental programs in order to assist the Corporation in attracting and retaining the most qualified executive officers whose contributions and experience help the Corporation sustain growth, thereby enhancing shareholders value.

The Human Resources Committee evaluates and recommends to the Board the Corporation's compensation policy for the Chairman of the Board, President and CEO and the Executive Officers. The Human Resources Committee considers, among other factors, competitive pay practices for developing a stronger relationship between executive compensation and the Bank's long-term performance. It is kept apprised of such competitive pay practices by an independent consultant who conducts a periodic analysis of executive compensation of a

peer group of financial institutions similar in size, scope and business orientation (the "Peer Group"). On an annual basis the banking Peer Group used by the Committee for comparative purposes is reviewed in light of industry developments, and significant mergers/acquisitions, in order to ensure that it remains consistent with the Corporation's size and focus.

The executive compensation program for principal officers of the Corporation's subsidiaries is set according to the industry and geographical area in which each operates and is approved by the Board of Directors of each respective subsidiary.

CHAIRMAN OF THE BOARD, PRESIDENT AND CEO, MR. RICHARD L. CARRION

On an annual basis, Mr. Carrion submits to the Corporation's Executive Committee a plan setting forth both quantitative and qualitative goals for the fiscal year, and objectives for the medium and long-term. In evaluating and setting compensation the Human Resources Committee considers the Corporation's performance with respect to the goals set forth in the plan. Therefore, the Executive Committee evaluates Mr. Carrion's performance by taking into consideration the growth of the organization, implementation of a diversification strategy, achievement of financial goals, improvements to the product and service delivery system and development of human resources. The weight and significance accorded to these factors is subjective in nature.

Mr. Carrion participates in an annual incentive program designed to encourage the achievement of short-term financial goals and to increase shareholder value. The first incentive component could represent 15% of base salary, if the net income target is met, and if the net income target is exceeded it could reach 25%. Although the threshold continues to be 100% of target, the Human Resources Committee may recommend a discretionary bonus if results obtained are at least 95% of the pre-established net income target. The second component, which is based on return on equity (ROE) and is designed to encourage an increase in shareholder value, could range from 5% to 30% of base salary, depending on the ROE obtained. Additionally, the bonus award may be increased by 25% when shareholder return exceeds 20% annually for a consecutive three-year period. Total shareholder return is calculated by taking into account the compounded annual yield of the stock, considering the market appreciation, dividends received or dividend reinvestment. This third and last bonus component recognizes consistent improvement in shareholder value. The maximum total incentive bonus that may be awarded could be 68.75% of base salary if all components of the bonus program are achieved. Beginning on 2001, the annual incentive program has been revised to consider only the net income target. Incentive bonus could represent 30% of base salary, if the net income target is met, and if the net income target is exceeded up to 105% it could reach 55%. An additional 4% bonus will be awarded for each percentage of the net income target achieved over 105%.

For the year 2000 the financial results achieved represented 95% of the pre-established target. Based on this result, the Human Resources Committee recommended a discretionary incentive of 15% of Mr. Carrion's base salary. Mr. Carrion recommended to the Committee that it consider the bonus on a future date. This was accepted by all the members of the Committee.

EXECUTIVE OFFICERS

The group of Executive Officers is composed of two Senior Executive Vice Presidents of the Corporation and eight Executive Vice Presidents of the Corporation (the "Executive Officers") all of whom participate in the Profit Sharing, Annual Incentive and Long-Term Incentive Plans of the Bank. The President and CEO sets the salary increases and the bonuses to be awarded to the Executive Officers pursuant to the incentive plans. In 2001, two other officers were appointed Executive Vice President and Executive Officers of the Corporation.

The salary increase program allows discretionary salary increases based on individual performance to be twice the increases of the Executive Officers as a group. It provides the CEO the opportunity to recognize changes in individual responsibilities and performance levels.

Each Executive Officer participates in the Annual Incentive Plan. In 2000, a bonus of 15% of base salary was awarded to each Executive Officer. As recommended by the Human Resources Committee, the bonus was based on the fact that the Corporation's net income was 95% of target net income.

HUMAN RESOURCES AND COMPENSATION COMMITTEE

Juan A. Albors	Hector R. Gonzalez
Francisco J. Carreras	Alberto M. Paracchini
Maria Luisa Ferre	Francisco M. Rexach Jr.

EXECUTIVE COMPENSATION

The following table sets forth all cash compensation paid by the Corporation or its subsidiaries to the highest paid Executive Officers of the Corporation and the most highly compensated principal officers of the Corporation's subsidiaries.

SUMMARY COMPENSATION TABLE

NAME AND PARTICIPANT POSITION	FISCAL YEAR	ANNUAL COMPENSATION SALARY(A)	BONUS(B)	ALL OTHER ANNUAL COMPENSATION(C)	L INCE P
Richard L. Carrion	2000	$540,000	$ 60,912	$42,069	
Chairman,	1999	540,000	72,164	53,327	
President and CEO	1998	526,667	262,552	46,134	$
David H. Chafey Jr	2000	466,999	121,631	37,021	
Senior Executive Vice President	1999	412,920	209,480	41,638	
of the Corporation	1998	393,000	194,560	35,356	
Jorge A. Junquera	2000	430,790	111,293	34,548	
Senior Executive Vice President	1999	401,760	203,866	40,752	
of the Corporation	1998	384,000	189,479	34,722	
Carlos J. Vazquez	2000	342,514	88,833	27,713	
Executive Vice President	1999	309,742	157,075	31,418	
of the Corporation	1998	293,645	140,254	21,017	
Larry B. Kesler	2000	304,575	79,239	24,643	
Executive Vice President	1999	271,317	137,646	27,521	
of the Corporation	1998	258,952	127,899	23,415	
Maria Isabel P. de Burckhart	2000	283,035	73,469	22,901	
Executive Vice President	1999	255,954	129,860	25,963	
of the Corporation	1998	244,288	120,664	22,089	
Humberto Martin	2000	282,433	73,283	22,852	
Executive Vice President	1999	255,409	129,554	25,907	
of the Corporation	1998	244,633	120,448	22,120	
Guillermo L. Martinez(e)	2000	425,770	242,714	33,872	
President of the Board of Directors and Chief Executive Officer of GM Group, Inc. (a wholly-owned subsidiary of the Corporation)					
Cameron E. Williams(e)	2000	272,983	165,000	22,000	
President of Equity One, Inc.	1999	250,000	150,000	62,000	
(a wholly-owned subsidiary of Popular North America, Inc.)					
Kenneth McGrath	2000	188,333	140,200	81,815	
President of Popular Securities, Inc.	1999	180,000	224,200	75,000	
(a wholly-owned subsidiary	1998	175,000	165,200	59,000	
of the Corporation)					

(a) Salaries before deductions.
(b) The bonus amount for the Bank's Executive Officers includes a Christmas bonus, the bonus awarded under the Annual Management Incentive Compensation Plan, and the cash portion payable under the Profit Sharing Plan of the Bank. For the subsidiaries' presidents the amount includes Christmas Bonus, (if any) and performance bonus.
(c) For the Bank's Executive Officers the amount includes deferred portion awarded under the Profit Sharing Plan of the Bank, amounts accrued under the Benefit Restoration Plan, the amount from the Profit Sharing deferred and allocated

to Stock Plan and the Bank's matching contribution to Stock Plan, which are described on pages 19 through 21. For Mr. McGrath, amount includes matching contribution to an 1165(e) plan and a deferred portion of the performance bonus. For Mr. Williams, amount represents the contribution of Equity One, Inc. pursuant to Section 401(k) matching and deferred compensation under Supplementary Executive Retirement Plan. For Mr. Martinez, amount includes matching contribution to an 1165(e) plan and deferred compensation under Supplementary Executive Retirement Plan. Amounts reported do not include the value of perquisites and other personal benefits because the aggregate amount of such benefits does not exceed the lesser of $50,000 or 10% of total amount of annual salary and bonus of any named individual.

d) For the 1998-2000 Long-Term Incentive Plan, the performance of Popular, Inc.'s stock during the three-year period did not equal or exceed the three-year combined performance of the S&P 500 Index, the S&P Financials Index and the S&P Banks Index. In addition, the three-year average ROE target was not achieved, nor was the Peer Group three-year average median ROE exceeded. Also, Popular, Inc.'s average ROE did not represent an improvement over the base year ROE compared to the Peer Group's median ROE. Therefore, none of the shares assigned at the beginning of the plan were awarded.

e) Information presented for 2000, 1999 and 1998, except for Mr. Cameron E. Williams who was appointed President of Equity One, Inc. in 1999 and for Mr. Guillermo L. Martinez, President of the Board of Directors and Chief Executive Officer of GM Group, Inc. a wholly-owned subsidiary acquired by the Corporation during 1999.

LONG-TERM INCENTIVE PLAN

Since 1994, the Executive Officers participate in a Long-Term Incentive Plan, the goal of which is to encourage long-term corporate performance and objectives. This Plan divided the incentive payment as follows: 75% based on the attainment of a pre-established three-year average return on equity ("ROE") objective for the performance period and 25% based on the achievement of an average ROE greater than the Peer Group's three-year average median ROE. If the ROE for the Corporation does not equal or exceed the Peer three-year average median ROE, the Human Resources Committee, at its own discretion, may recommend the distribution of 25% of the targeted bonus if the average results attained for the Plan year represent an improvement of no less than 25% over the base year. The incentive percentage is established depending on the participant's base salary at the beginning of the three-year period. The resulting dollar amount is divided by the average closing price of the Corporation's common stock.

On April 27, 1999, the Board approved an amendment to the Long-Term Incentive Plan changing the calculation of the amount of the incentive awarded to be based on the performance of the S&P 500 Index and the S&P Financial Index. Beginning in 2000 the S&P Banks Index was also included in the calculation of the Long-Term Incentive Plan. Therefore, the incentive is determined based on the market performance of the Corporation's common stock as compared to the combined performance of the S&P 500 Index, the S&P Financial Index and the S&P Banks Index during the three-year period of the plan. The range to determine the percentage of base salaries was also adjusted as follows:

Range	
Score	Incentive
<100%	0%
100-109	15%
110-119	25%
120-129	50%
130-139	75%
140-149	100%
150 and over	110%

The score represents the relationship of the performance of the Corporation's common stock during the three-year period, compared with the average appreciation of the S&P 500 Index, the S&P Financials Index and the S&P Banks Index. If the Corporation's target is met or exceeded, the share payments corresponding to the Corporation's and Peer Group's goals may amount up to 110% of the base salary of the participant at the end of the Plan year.

The three-year period for the 1999-2001 and 2000-2002 Long-Term Incentive Plans had not concluded when the amendment became effective. A transition rule was approved for these plans to allow a proportional calculation based on the method used at the inception of each plan and the new method.

The Plan's incentive payment shall be made in common stock of the Corporation. All common stock to be awarded under this program is purchased in the open market. The incentive payment could be deferred, at the option of the participant, until his (her) retirement or it could be paid in common stock of the Corporation. If the payment is made in common stock of the Corporation a portion equal to the estimated tax due may be paid in cash.

For the 1998-2000 Long-Term Incentive Plan, the performance of Popular, Inc.'s stock during the three-year period did not equal or exceeded the three-year combined performance of the S&P 500 Index, the S&P Financials Index and S&P Bank Index. In addition, the three-year average ROE target was not achieved, nor was the Peer Group three-year average median ROE exceeded. Also, the Corporation's average ROE did not represent an improvement over the base year ROE compared to the Peer Group's median ROE. Therefore, the total shares assigned at the beginning of the plan were not awarded.

If the proposed 2001 Stock Option Plan is approved, the Corporation intends to terminate the 1998-2000 Long-Term Incentive and make no further awards under this plan as well as to terminate any outstanding awards.

PROFIT SHARING PLAN OF THE BANK

All officers and regular monthly salaried employees of the Bank are active participants in the Bank's Profit Sharing Plan, as of the first day of the calendar month following the completion of one year of service. Beginning in 2001 participation starts after three months of service.

Under this plan, the Board of Directors of the Bank determines the Bank's annual contribution based on the profits of the Bank for the year. The amount allocated to each officer or employee is based on his or her earned salary for the year. The total amount contributed for the year 2000 was $18,538,982. Of the total awarded 40% is contributed to the Profit Sharing Plan, 10% to the Savings & Stock Plan and the remainder (50%) is paid in cash. However, since 1998 each officer and employee may elect to increase his (her) contribution to the Savings & Stock Plan up to 15%; as a result of this election 39% was contributed to the Profit Sharing Plan and 11% to the Savings & Stock Plan.

Beginning on 2001 the vesting requirements for this plan were changed providing participants with a 100% of vesting rights after five years, instead of the seven years required before.

BENEFIT RESTORATION PLAN OF THE BANK

The Internal Revenue Service (IRS) set a limit of $170,000 as the amount of compensation that may be considered in calculating future retirement payments from qualified pension plans. This limit applies to the Bank's Retirement Plan and Profit Sharing.

The Board of Directors has approved an unfunded nonqualified "Benefit Restoration Plan" for those officers whose annual compensation is higher than the established limit. This non-qualified plan will provide those benefits that cannot be accrued under the Bank's qualified Retirement and Profit Sharing Plans because of said compensation limit. The Corporation intends to establish during 2001 one or two qualified and funded retirement plans to provide the benefits currently provided by the Benefit Restoration Plan to its employees who are residents of Puerto Rico.

RETIREMENT PLAN OF THE BANK

Banco Popular de Puerto Rico has a non-contributory, defined benefit Retirement Plan covering substantially all regular monthly employees. Monthly salaried employees are eligible to participate in the Plan following the completion of one year of service and 21 years of age. Pension costs are funded in accordance with minimum funding standards under the Employee Retirement Income Security Act ("ERISA").

The Retirement Plan formula is based on years of service and total cash compensation received by the employee. Benefits are paid on the basis of a straight life annuity plus supplemental death benefits and are not reduced (offset) for Social Security or other payments received by the participants.

Normal retirement age at the Bank is the latter of (a) the participant's 65(th) birthday or (b) the completion of five

years of service. Participants can enjoy unadjusted early retirement benefits at age 55 with 10 years of service. Participants can also enjoy actuarially adjusted early retirement benefits after age 50, whenever the combination of age plus service is equal or

more than 75. Maximum retirement benefit obtainable under this plan is 40% of participant's final average compensation as defined by the plan. This plan is qualified under section 401(a) of the Internal Revenue Code and Section 1165(e) of the Puerto Rico Internal Revenue Code.

The following table sets forth the estimated annual benefits that would become payable under the Retirement Plan and the Benefit Restoration Plan based upon certain assumptions as to total compensation levels and years of service. The amounts shown in this table are not necessarily representative of amounts that may actually become payable under the plans. The amounts represent the benefits upon retirement on December 31, 2000, of a participant at age 65.

TOTAL COMPENSATION	ESTIMATED ANNUAL BENEFITS / YEARS OF SERVICE				
	15	20	25	30	35
$1,400,000	$256,000	$357,000	$459,000	$560,000	$560,000
1,300,000	237,000	332,000	426,000	520,000	520,000
1,200,000	219,000	306,000	393,000	480,000	480,000
1,100,000	201,000	281,000	360,000	440,000	440,000
1,000,000	183,000	255,000	328,000	400,000	400,000
900,000	164,000	230,000	295,000	360,000	360,000
800,000	146,000	204,000	262,000	320,000	320,000
700,000	128,000	179,000	229,000	280,000	280,000
600,000	110,000	153,000	197,000	240,000	240,000
500,000	91,000	128,000	164,000	200,000	200,000
400,000	73,000	102,000	131,000	160,000	160,000
300,000	55,000	77,000	98,000	120,000	120,000

The 2000 total compensation and estimated years of service at age 65 for the highest paid key policy-making Executive Officers of the Corporation are as follows.

	2000 TOTAL COMPENSATION	ESTIMATED YEARS OF SERVICE AT AGE 65
Richard L. Carrion	$ 643,000	41.6
David H. Chafey Jr	626,000	39.8
Jorge A. Junquera	577,000	41.5
Carlos J. Vazquez	459,000	26.4
Larry B. Kesler	408,000	16.5
Maria Isabel P. de Burckhart	379,000	33.7
Humberto Martin	379,000	40.1

BANCO POPULAR DE PUERTO RICO SAVINGS & STOCK PLAN

The Bank has adopted a Savings & Stock Plan covering employees of the Bank in Puerto Rico. All regular salaried employees of the Bank are eligible to participate in the Savings & Stock Plan following the completion of three months of service.

The Bank may contribute a discretionary amount based on the profits of the Bank for the year, which is allocated to each officer or employee based on his or her basic salary for the year, as determined by the Board. The Savings & Stock Plan allows employees to voluntarily elect to defer a predetermined percentage not to exceed 10% of their pre-tax total compensation. Beginning in 2001 the Savings & Stock Plan also allows employees to voluntarily elect to contribute a predetermined

percentage not to exceed 10% of their after-tax total cash compensation. Both contribution levels are subject to maximum contribution limits as determined by applicable laws. In addition, employees will be (i) fully vested after five years of service, (ii) allowed to make after-tax contributions and (iii) provided with new investment alternatives.

The Bank will match 50% of the pre-tax amount contributed by the participant and invested in the Corporation's common stock, up to a maximum participant contribution determined by the Board each year. For the year 2000, the maximum participant's contribution subject to employer match was 2% of participant's annual base salary.

POPULAR, INC. RETIREMENT SAVINGS PLAN FOR PUERTO RICO SUBSIDIARIES

The Corporation adopted this Plan effective 1/1/2001 for the benefit of all regular monthly salaried employees of the following subsidiaries of the Corporation:

Popular Securities, Inc. Popular Mortgage, Inc. Popular Leasing & Rental, Inc. Popular Finance, Inc. GM Group, Inc. Popular Insurance, Inc.

The aforementioned subsidiaries of the Corporation adopted this plan as of 1/1/2001. All regular monthly salaried employees are eligible to participate in the plan following the completion of one year of service and attainment of 21 years of age.

The Plan allows employees to voluntarily elect to defer a predetermined percentage not to exceed 10% of their compensation. The Plan also allows employees to voluntarily elect to contribute a predetermined percentage not to exceed 10% of their after-tax compensation. Both contribution levels are subject to maximum contribution limits as determined by applicable laws.

The corresponding subsidiaries match certain percentage of the pre-tax amounts contributed by a participant up to a maximum as defined by each subsidiary. Participants are allowed to receive in-service distributions based only on economic hardship safe harbor rules.

DEFERRED COMPENSATION PLAN OF EQUITY ONE, INC.

Equity One, Inc. adopted a deferred compensation plan designed to provide a post retirement benefit to several key executives. Equity One, Inc. purchases flexible, variable life insurance policies for each participant and names itself as beneficiary. The cash surrender values of the policies are expected to pay benefits to the participants upon their retirement. Should the participant terminate their employment prior to retirement, they are entitled to their vested portion of their account.

EMPLOYEE BENEFIT PLAN OF EQUITY ONE, INC.

Equity One, Inc. sponsors a defined contribution plan (401(k) covering all eligible employees. Contributions to this plan are in the form of employee salary deferrals which are subject to an employer matching contribution up to a specified limit at the discretion of Equity One, Inc.

POPULAR, INC.
PERFORMANCE GRAPH

The graph below compares the cumulative total shareholder return during the measurement period with the cumulative total return, assuming reinvestment of dividends, of the National Association of Securities Dealers Automated Quotation System (NASDAQ) Stock Market Index and the NASDAQ Bank Composite Index.

The cumulative total shareholder return was obtained by dividing (i) the cumulative amount of dividends per share, assuming dividend reinvestment, since the measurement point, December 31, 1995 plus (ii) the change in the per share price since the measurement date, by the share price at the measurement date.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN
TOTAL RETURN AS OF DECEMBER 31
(DECEMBER 31, 1995=100)

COMPANY/INDEX	BASE PERIOD	12/31/95	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00
POPULAR, INC.**	9.6875	100.00	174.19	255.48	350.97	288.39	271.61
NASDAQ BANKS COMPOSITE	357.923	100.00	132.04	221.06	219.64	211.14	241.08
NASDAQ STOCK MARKET	345.574	100.00	123.04	150.69	212.51	394.92	237.62

INDEPENDENT PUBLIC ACCOUNTANTS

AUDIT FEES

The aggregate fees billed by PricewaterhouseCoopers LLP, the Corporation's independent public accountants for the year ended December 31, 2000, for professional services rendered for the audit of the Corporation's annual financial statements for that fiscal year and for the reviews of the financial statements included in the Corporation's quarterly reports on Form 10-Q for that fiscal year were $941,652.

FINANCIAL INFORMATION SYSTEMS DESIGN AND IMPLEMENTATION FEES

There were no fees billed to the Corporation for the year ended December 31, 2000 by PricewaterhouseCoopers LLP for professional services rendered for information technology services relating to financial information systems design and implementation.

ALL OTHER FEES

The aggregate fees billed for services rendered to the Corporation by PricewaterhouseCoopers LLP, other than the services described above under "Audit Fees" and "Financial Information Systems Design and Implementation Fees," for the year ended December 31, 2000 were $689,743.

RETENTION OF INDEPENDENT PUBLIC ACCOUNTANTS FOR THE YEAR 2001

The Board intends to retain the services of PricewaterhouseCoopers LLP as the independent public accountants of the Corporation for the year 2001. PricewaterhouseCoopers LLP (former Price Waterhouse) served as independent public accountants of the Bank since 1971 and of the Corporation since May 1991, when it was appointed by the Board.

Representatives of PricewaterhouseCoopers LLP will attend the Meeting and will be available to respond to any appropriate questions that may arise; they will also have the opportunity to make a statement if they so desire.

PROPOSALS OF SECURITY HOLDERS TO BE PRESENTED AT THE 2002 ANNUAL MEETING OF STOCKHOLDERS

Stockholders' proposals intended to be presented at the 2002 Annual Meeting of Stockholders must be received by the Corporation's Secretary, at its principal executive offices, Popular Center Building, San Juan, Puerto Rico, 00918, not later than November 23, 2001 for inclusion in the Corporation's Proxy Statement and Form of Proxy relating to the 2002 Annual Meeting of Stockholders.

OTHER MATTERS

Management does not know of any other matters to be brought before the Meeting other than those described previously. Proxies in the accompanying form will confer discretionary authority to the Proxyholders with respect to any such other matters presented at the meeting.

To avoid delays in ballot taking and counting, and in order to assure that your Proxy is voted in accordance with your wishes, compliance with the following instructions is respectfully requested: upon signing a Proxy as attorney, executor, administrator, trustee, guardian, authorized officer of a corporation, or on behalf of a minor, please give full title. If shares are in the name of more than one recordholder, all should sign.

Whether or not you plan to attend the Meeting, it is very important that your shares be represented and voted in the Meeting. Accordingly, you are urged to properly complete, sign, date and return your Proxy Card or vote by telephone or by Internet.

San Juan, Puerto Rico, March 15, 2001

RICHARD L. CARRION
Chairman of the Board, President
and Chief Executive Officer

SAMUEL T. CESPEDES
Secretary

YOU MAY REQUEST A COPY OF THE REPORT ON FORM 10K FILED WITH THE SEC BY CALLING (787) 765-9800 OR WRITING TO AMILCAR JORDAN, SENIOR VICE PRESIDENT, BANCO POPULAR DE PUERTO RICO, P.O. BOX 362708, SAN JUAN, PR 00936-2708.

EXHIBIT A

POPULAR, INC.

AUDIT COMMITTEE CHARTER

ARTICLE 1 - ORGANIZATION

The Board of Directors (the "Board") of Popular, Inc. (the "Corporation") has established an Audit Committee to undertake the responsibilities and perform the tasks set forth in this Charter.

ARTICLE 2 - COMPOSITION

The Audit Committee shall be comprised of at least three directors, each of whom shall not be an officer or employee of the Corporation or its subsidiaries, shall not have any relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and shall otherwise satisfy the applicable membership requirements under the rules of the National Association of Securities Dealers, Inc., as such requirements are interpreted by the Board in its business judgment. The members of the Audit Committee shall be designated by the Board.

The Board shall designate as president of the Audit Committee one of its members, who shall preside over the meetings of the Committee and shall inform the Board of the actions taken by the Committee. In the event of a vacancy or an absence in the Audit Committee, the Board may designate any member of the Board as substitute, provided such person complies with the requisites established herein.

ARTICLE 3 - PURPOSE

The purpose of the Audit Committee is to assist the Board:

1. in its oversight of the Corporation's accounting and financial reporting principles and policies, and internal audit controls and procedures;

2. in its oversight of the Corporation's financial statements and the independent audit thereof;

3. in nominating the outside auditors to be proposed for shareholder approval in any proxy statement, evaluating and, where deemed appropriate, replacing the outside auditors; and

4. in evaluating the independence of the outside auditors.

In fulfilling their responsibilities hereunder, it is recognized that members of the Audit Committee are not employees of the Corporation and are not, and do not represent themselves to be, accountants or auditors by profession or experts in the fields of accounting or auditing, including matters relating to the determination of the independence of the outside auditors. As such, it is not the duty or responsibility of the Audit Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures or to set auditor independence standards, and each member of the Audit Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Corporation from which it receives information, (ii) the accuracy of the financial and other information provided to the Audit Committee by such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board) and (iii) representations made by management as to any information technology, internal audit and other non-audit services provided by the auditors to the Corporation.

The function of the Audit Committee is to act in an oversight capacity. The management of the Corporation is responsible for the preparation, presentation and integrity of the Corporation's financial statements. Furthermore, management is responsible for maintaining appropriate accounting and financial reporting principles and policies, and internal

controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The Internal Audit Division is responsible for examining and evaluating the adequacy and effectiveness of the systems of internal control of the Corporation and its subsidiaries to ensure (i) the reliability and integrity of information; (ii) compliance with the Corporation's policies, plans and procedures, as well as laws and regulations; (iii) the safekeeping of assets; and (iv) the economical and efficient use of resources. The outside auditors are responsible for planning and carrying out a proper audit of the Corporation's annual financial statements, reviews of the Corporation's quarterly financial statements prior to the filing of each quarterly report on Form 10-Q, and other procedures.

The internal and outside auditors for the Corporation are ultimately accountable to the Board (as assisted by the Audit Committee). The Board, with the assistance of the Audit Committee, has the ultimate authority and responsibility to select, evaluate and, where appropriate, replace the outside auditors or to nominate the outside auditors to be proposed for shareholder approval in the proxy statement.

The outside auditors shall annually submit to the Corporation a formal written statement delineating all relationships between the outside auditors and the Corporation ("Statement as to Independence"), addressing each non-audit service provided to the Corporation and the matters set forth in Independence Standards Board Standard No. 1.

The outside auditors shall annually submit to the Corporation a formal written statement of the fees billed for each of the following categories of services rendered by the outside auditors: (i) the audit of the Corporation's annual financial statements for the most recent fiscal year and the reviews of the financial statements included in the Corporation's Quarterly Reports on Form 10-Q for that fiscal year; (ii) information technology consulting services for the most recent fiscal year, in the aggregate and by each service (and separately identifying fees for such services relating to financial information systems design and implementation); and (iii) all other services rendered by the outside auditors for the most recent fiscal year, in the aggregate and by each service.

ARTICLE 4 - DUTIES AND POWERS

To carry out its purposes, the Audit Committee shall have the following duties and powers:

1. With respect to the outside auditor:

(i) to provide advice to the Board in selecting, evaluating or replacing outside auditors;

(ii) to review the fees charged by the outside auditors for audit and non-audit services;

(iii) to ensure that the outside auditors prepare and deliver annually a Statement as to Independence (it being understood that the outside auditors are responsible for the accuracy and completeness of this Statement), to discuss with the outside auditors any relationships or services disclosed in this Statement that may affect the objectivity and independence of the Corporation's outside auditors and to recommend that the Board take appropriate action in response to this Statement to satisfy itself of the outside auditors' independence;

(iv) if applicable, to consider whether the outside auditors' provision of (a) information technology consulting services relating to financial information systems design and implementation and (b) other non-audit services to the Corporation is compatible with maintaining the independence of the outside auditors; and

(v) to instruct the outside auditors that they are ultimately accountable to the Board (as assisted by the Audit Committee).

2. With respect to the Internal Audit Division:

(i) to review the appointment and replacement of the General Auditor;

(ii) to review and ratify the annual evaluation and salary recommendation of the General Auditor as recommended by the Head of Risk Management;

(iii) to advise the General Auditor that he or she is expected to provide to the Audit Committee summaries of and, as appropriate, the significant reports to management prepared by the Internal Audit Division and management's responses thereto; and

(iv) to instruct the internal auditors that they (in conjunction with the outside auditors) are ultimately accountable to the Board (as assisted by the Audit Committee).

3. With respect to financial reporting principles and policies, and internal audit controls and procedures:

(i) to advise management, the Internal Audit Division and the outside auditors that they are expected to provide to the Audit Committee a timely analysis of significant financial reporting issues and practices;

(ii) to consider any reports or communications (and management's and/or the Internal Audit Division's responses thereto) submitted to the Audit Committee by the outside auditors required by or referred to in SAS 61 (as codified by AU Section 380), as may be modified or supplemented, including reports and communications related to:

- deficiencies noted in the audit in the design or operation of internal controls;

- consideration of fraud in a financial statement audit;

- detection of illegal acts;

- the outside auditor's responsibility under generally accepted auditing standards;

- significant accounting policies;

- management judgments and accounting estimates and assumptions;

- adjustments arising from the audit;

- the responsibility of the outside auditor for other information in documents containing audited financial statements;

- disagreements with management;

- consultation by management with other accountants;

- major issues discussed with management prior to retention of the outside auditor;

- difficulties encountered with management in performing the audit;

- the outside auditor's judgments about the quality of the entity's accounting principles; and

- reviews of interim financial information conducted by the outside auditor;

(iii) to meet with management, the General Auditor and/or the outside auditors:

- to discuss the scope of the annual audit;

- to discuss the audited financial statements;

- to discuss any significant matters arising from any audit, report or communication referred to in Article 4, items 2(iii) or 3(ii) of this charter, whether raised by management, the Internal Audit Division or the outside auditors, relating to the Corporation's financial statements;

- to review the form of opinion the outside auditors propose to render to the Board and shareholders;

- to discuss significant changes to the Corporation's auditing and accounting principles, policies, controls, procedures and practices proposed or contemplated by the outside auditors, the Internal Audit Division or management; and

- to inquire about significant risks and exposures, if any, and the steps taken to monitor and minimize such risks;

(iv) to obtain from the outside auditors assurance that the audit was conducted in a manner consistent with Section 10A of the Securities Exchange Act of 1934, as amended, which sets forth certain procedures to be followed in any audit of financial statements required under the Securities Exchange Act of 1934; and

(v) to discuss with the Corporation's General Counsel any significant legal matters that may have a material effect on the financial statements and the Corporation's compliance policies, including material notices to or inquiries received from governmental agencies.

4. With respect to reporting and recommendations:

(i) to prepare any report or other disclosures, including any recommendation of the Audit Committee, required by the rules of the Securities and Exchange Commission to be included in the Corporation's annual proxy statement;

(ii) to review this Charter at least annually and recommend any changes to the Board; and

(iii) to report its activities to the Board on a regular basis and to make such recommendations with respect to the above and other matters as the Audit Committee may deem necessary or appropriate.

ARTICLE 5 - RESOURCES AND AUTHORITY OF THE AUDIT COMMITTEE

The Audit Committee shall have the resources and authority appropriate to discharge its responsibilities, including the authority to engage outside auditors for special audits, reviews and other procedures and to retain special counsel and other experts or consultants.

ARTICLE 6 - TERM IN OFFICE

The members of the Committee shall hold office from the time of designation until the next annual meeting of stockholders of the Corporation. The Board may, however, extend such period for one or all designated members.

ARTICLE 7 - MEETINGS

The Committee will meet at least one (1) time every three (3) months, or more frequently if circumstances dictate, to discuss the matters set forth in Article 4. In addition to such meetings, the Audit Committee should meet separately at least annually with management, the General Auditor and the outside auditors to discuss any matters that the Audit Committee or any of these persons or firms believe should be discussed privately, including the annual audited financial statements. The Audit Committee may request any officer or employee of the Corporation or the Corporation's outside counsel or outside auditors to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee. Members of the Audit Committee may participate in a meeting of the Audit Committee by means of a conference call or similar communications equipment by means of which all persons participating in the meeting can hear each other.

ARTICLE 8 - SECRETARY

The Committee will designate a Secretary among its members. The Secretary may delegate his (her) functions to any officer of the Corporation designated by the Secretary. The Secretary, or the person so designated, will notify the members of the Committee of the place, date, and time of the meetings of the Committee on a timely basis, as well as prepare and submit the agenda, reports and documents required for each meeting of the Committee.

ARTICLE 9 - MINUTES OF THE MEETINGS

The Secretary or his (her) designee will prepare accurate minutes of each meeting of the Committee, indicating which members of the Committee were present, and summarizing the decisions, recommendations and agreements reached. The President of the Committee will submit the minutes and the attachments considered necessary to the Board at their next meeting for their review and ratification.

ARTICLE 10 - QUORUM AND COMMITTEE DECISIONS

A quorum shall consist of the majority of the members of the Committee. The decisions of the Committee shall be adopted by an affirmative vote of the majority of the members present at the meeting in which the decision is considered. In the event of a tie, the decision will be submitted to the Board in their next meeting and no action will be taken until the Board makes a decision.

ARTICLE 11 - AMENDMENTS

This Charter can be amended by means of an express resolution of the Board.

ARTICLE 12 - EFFECTIVE DATE

This Charter will be effective immediately after its approval by the Board. The Secretary of the Board will certify it with his (her) signature and the Corporate seal, indicating the date it was approved.

CERTIFICATE OF RESOLUTION

The undersigned, as Secretary of the Board of Popular, Inc., does hereby certify that this Audit Committee Charter was duly adopted at a meeting of the Board of the Corporation held on March 7, 2001, at which a quorum was present and acting throughout.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Corporation in San Juan, Puerto Rico this 7(th) day of March, 2001.

Juan J. Bermudez Alberto M. Paracchini Hector R. Gonzalez Francisco M. Rexach Jr. Manuel Morales Jr. Felix J. Serralles Jr.

EXHIBIT B

POPULAR, INC.
2001 STOCK OPTION PLAN

EFFECTIVE MARCH 7, 2001

SECTION 1. INTRODUCTION

1.1 PURPOSE

The purpose of the Popular, Inc. 2001 Stock Option Plan (the "Plan") is to provide Popular, Inc. (the "Corporation") and its subsidiaries (the "Subsidiary") with an effective means to attract and retain highly qualified personnel as well as to provide additional incentive to employees and directors who provide services to the Corporation and the Subsidiary. The Plan is expected to contribute to the attainment of these objectives by offering selected employees and directors the opportunity to acquire stock ownership interests in the Corporation.

1.2 CONSIDERATION TO CORPORATION FOR ISSUANCE OF OPTIONS:

AGREEMENTS BY EMPLOYEES.

Each Employee by signing and accepting an Option Contract will, if the Committee so requires, agree to remain employed by the Corporation or a Subsidiary for a specified period of time, and the consideration to the Corporation for the issuance of Options will be any such employment agreements as well as the benefits to the Corporation or the Subsidiary from the added incentive to the Employee of increased proprietorship in the Corporation. Nothing in the Plan or in any Option Contract shall confer on any individual any right to continue employed by the Corporation or any Subsidiary or limit the right of the Corporation or of any Subsidiary to terminate Employment of an Employee at any time, with or without cause.

1.3 PLAN SUBJECT TO RATIFICATION BY SHAREHOLDERS.

The Plan shall become effective upon adoption by the Board of Directors, provided that the Plan is approved, within one year following its adoption by the Board of Directors, by a vote of the holders of a majority of the shares of Common Stock entitled to vote and present in person or by proxy at a duly held shareholders' meeting. No Option under the Plan may be granted more than 10 years after the earlier of the date the Plan is adopted or the date the Plan is approved by the shareholders of the Corporation, without further approval by the shareholders of the Corporation.

1.4 LIMITATIONS ON NUMBER OF SHARES ISSUABLE UNDER THE PLAN.

Subject to the following provisions of this Section 1.4, the aggregate number of shares of Common Stock which may be issued under the Plan shall be limited to 5,000,000 shares. The shares of Common Stock for which Options may be granted may consist of either authorized but unissued shares of Common Stock or shares of Common Stock which have been issued and which shall have been heretofore or hereafter reacquired by the Corporation. The total number of shares subject to Options authorized under the Plan shall be subject to increase or decrease in order to give effect to the adjustment provisions of Section 3.2 hereof or any amendment adopted as provided in Section 4.2 hereof. If any Option granted under the Plan is forfeited or otherwise expires, terminates or is cancelled for any reason without having been exercised in full, shares of Common Stock are surrendered or withheld from any Option to satisfy an Optionee's income tax withholding obligations, or shares of Common Stock owned by an Optionee are tendered to pay the exercise price of an Option, then the shares covered by such forfeited, expired, terminated or cancelled Option or which are equal to the number of shares surrendered, withheld or tendered, shall again become available for purposes of the Plan.

1.5 DEFINITIONS.

The following terms shall have the meanings set forth below:

(a) Board or Board of Directors. The Board of Directors of the Corporation.

(b) Committee. The compensation committee or such other committee or committees as may be appointed by the Board of Directors to administer the Plan pursuant to the provisions of Section 4.2 hereof. At any time the Plan is being administered by the Board of Directors pursuant to
Section 4.1, any reference to the Committee shall be deemed to refer to the Board of Directors.

(c) Common Stock. The Corporation's presently authorized common stock, par value $6.00 per share, except as this definition may be modified pursuant to the provisions of Section 3.2 hereof.

(d) Disability. Complete and permanent inability by reason of illness or accident to perform the duties of the occupation of the Employee or Nonemployee Director for the Corporation or a Subsidiary when such disability commenced.

(e) Employee. Any salaried officer or common law employee of the Corporation or any Subsidiary, or both, including any salaried officer or employee who is a member of the Board of Directors of the Corporation.

(f) Employment. The rendering of services by an Employee for the Corporation, for any Subsidiary, or both. Whether military, government or public service shall constitute termination of employment for purposes of this Plan or any Option granted hereunder shall be determined in each case by the Committee in its sole discretion.

(g) Fair Market Value. The closing price of the Common Stock reported on the NASDAQ National Market system on the date as of which such value is being determined or, if no price is reported on such day, then on the next preceding day on which such price was reported, or, if at any time the Common Stock shall not be reported on the NASDAQ National Market system, the Committee shall determine the fair market value on the basis of available prices for such Common Stock or in such manner as may be authorized by applicable regulations under the PRC and the IRC.

(h) Incentive Stock Option. An option to purchase Common Stock granted by the Committee under the Plan which satisfies the requirements of Section 422 of the IRC.

(i) IRC. The United States Internal Revenue Code of 1986, as amended.

(j) Nonemployee Director. Any director of the Corporation or a Subsidiary who is not an Employee of the Corporation or any Subsidiary.

(k) Nonstatutory Stock Option. An option to purchase Common Stock granted by the Committee under the Plan which does not satisfy the requirements of Section 1046 of the PRC or Section 422 of the IRC.

(l) Option. A Qualified Stock Option, an Incentive Stock Option or a Nonstatutory Stock Option.

(m) Optionee. A person to whom an Option has been granted under the Plan.

(n) Option Expiration Date. The date on which an Option becomes unexercisable by reason of the lapse of time or when a Nonstatutory Stock Option otherwise becomes unexercisable.

(o) PRC. The Puerto Rico Internal Revenue Code of 1994, as amended.

(p) Qualified Stock Option. An option to purchase Common Stock granted by the Committee under the Plan which satisfies the requirements of Section 1046 of the PRC.

(q) Reload Option. An option to purchase Common Stock granted by the Committee under the Plan pursuant to Section 2.4.

(r) Subsidiary. Any corporation in an unbroken chain of corporations beginning with the Corporation if, at the time an Option is granted, each of the corporations other than the Corporation owns stock possessing 50% or more of the total combined voting power of all classes of stock of one of the other corporations in such chain.

The use of the singular shall also include within its meaning the plural or vice versa.

SECTION 2. STOCK OPTIONS

2.1 GRANT AND EXERCISE OF OPTIONS.

(a) Grant of Options to Employees. The Board of Directors or the Committee on behalf of the Corporation may grant Options to purchase Common Stock to Employees or Nonemployee Directors selected by it in its discretion.

(b) Option Contracts. Options shall be evidenced by agreements ("Option Contracts") in such form as the Board of Directors or Committee shall approve (the Board of Directors in the case of Director Options) containing such terms and conditions, including the period of their exercise, whether in installments or otherwise, as shall be contained therein, which need not be the same for all Options.

(c) Option Price. The purchase price per share of Common Stock under each Option granted to an Employee or Nonemployee Director shall be not less than 100 percent of the Fair Market Value per share of such Common Stock on the date the Option is granted, as determined by the Committee. The purchase price may be subject to adjustment in accordance with the provisions of
Section 3.2 hereof.

(d) Term of Option. The term during which each Option granted to an Employee or Nonemployee Directors under the Plan may be exercised shall not exceed a period of ten years from the date of its grant.

(e) Exercise of Options. Unless an Option Contract provides otherwise or as provided in Section 3.1 below, each Option shall become exercisable, on a cumulative basis, with respect to 20% of the shares of Common Stock covered thereby on the first anniversary of the date of its grant and with respect to an additional 20% of the shares covered thereby on each subsequent anniversary. Any part of an Option that has become exercisable shall remain exercisable until it has been exercised in full or it terminates or expires pursuant to the terms of the Plan or the applicable Option Contract. Subsequent to the grant of an Option which is not immediately exercisable in full, the Board of Directors or the Committee, at any time before complete termination of such Option, may accelerate the time or times at which such Option may be exercised in whole or in part.

(f) Options Nontransferable. Options granted under the Plan shall by their terms be nontransferable otherwise than by will or the laws of descent and distribution, and, during the lifetime of the Optionee, shall be exercisable only by the Optionee. No transfer of an Option by an Optionee by will or by the laws of descent and distribution shall be effective to bind the Corporation unless the Corporation shall have been furnished with written notice thereof and a copy of the will and/or such other evidence as the Board of Directors or Committee may determine necessary to establish the validity of the transfer.

(g) Payment of Exercise Price. Each Option shall be exercised by delivery of a written notice to the Corporation stating the number of whole shares of Common Stock as to which the Option is being exercised and accompanied by payment therefor. No shares shall be issued on the exercise of an Option unless paid for in full at the time of purchase. Payment for shares purchased upon the exercise of an Option shall be made (i) by check payable to the Corporation, (ii) with the approval of the Board of Directors or the Committee, in Common Stock which has been held by the Optionee for at least six months valued at the then Fair Market Value thereof as determined by the Board of Directors or Committee, (iii) with the approval of the Board Directors or the Committee, by authorizing the Corporation, Popular Securities, Inc. or a broker-dealer approved by the Corporation, to sell, on behalf of Optionee, the appropriate number of shares otherwise issuable to the Optionee upon exercise of an Option, (iv) with the approval of the Board of Directors or the Committee and at the election of the Participant, by withholding from those shares that would otherwise be obtained upon exercise of the Option a number of shares having a Fair Market Value equal to the Option Price, (v) by any combination of (i), (ii), (iii), or (iv) above, or (vi) by other means that the Board of Directors or the Committee deems appropriate. Neither the Corporation nor any Subsidiary may directly or indirectly lend money to any individual for the purpose of assisting such individual to acquire or to carry shares issued upon the exercise of Options granted under the Plan. No Optionee shall have any rights as a shareholder with respect to any share of Common Stock covered by an Option unless and until such individual shall have become the holder of record of such share, and except as otherwise permitted by Section 3.2 hereof, no adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property or distributions or other rights) in respect of such share for which the record date is prior to the date on which such individual shall have become the holder of

record thereof.

(h) Investment Purpose. At the time of any exercise of any Option, the Corporation may, if it shall deem it necessary or desirable for any reason, require the holder of the Option to represent in writing to the Corporation that it is the intention of such holder to acquire the shares of Common Stock for investment only and not with a view to the distribution thereof. In such event no shares of Common Stock shall be issued to such holder unless and until the Corporation is satisfied with the correctness of such representation.

2.2 QUALIFIED STOCK OPTIONS AND INCENTIVE STOCK OPTIONS.

In addition to meeting the requirements of Section 2.1, each Qualified Stock Option shall be subject to the requirements of (a) and each Incentive Stock Option shall be subject to the requirements of (a), (b) and (c) of this Section 2.2.

(a) Annual Limitation of Options Which May Be Considered Qualified Stock Options and/or Incentive Stock Options. Anything else in the Plan notwithstanding, if and to the extent that the provisions of Section 1046 of the PRC and/or Section 422 of the IRC shall so require, the aggregate Fair Market Value (determined as of the time the Option is granted) of the shares with respect to which Qualified Stock Options and/or Incentive Stock Options are exercisable for the first time by any Optionee during any calendar year (under the Plan and any other plans of the Corporation and its Subsidiaries) shall not exceed $100,000.

(b) Incentive Stock Options Granted to Ten Percent Shareholders. Notwithstanding anything to the contrary contained in this Plan, an Incentive Stock Option may not be granted to an Optionee who owns, directly or indirectly, stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Corporation or any Subsidiary unless, at the time such Incentive Stock Option is granted, the exercise price of such Incentive Stock Option is at least 110 percent of the Fair Market Value of the Common Stock subject to the Incentive Stock Option, and such Incentive Stock Option, by its terms, is not exercisable after the expiration of five (5) years from the date of grant of such Incentive Stock Option.

(c) Notice. An Optionee shall give prompt (no more than 30 days) notice to the Corporation of any disposition of shares acquired upon exercise of an Incentive Stock Option if such disposition occurs within either two years after grant or one year after the receipt of such shares by the Optionee.

2.3 VOLUNTARY SURRENDER AND CANCELLATION OF NONSTATUTORY STOCK OPTIONS.

The Committee may grant to one or more holders of Nonstatutory Stock Options, in exchange for the voluntary surrender and cancellation of such Nonstatutory Stock Options, new Options having different Option prices than the Nonstatutory Stock Option prices provided in the Nonstatutory Stock Options so surrendered and cancelled and containing such other terms and conditions as the Committee may deem appropriate.

2.4 RELOAD OPTIONS.

At the time a Nonstatutory Stock Option (the "Original Option") is granted, the Committee may also authorize the grant of a Reload Option subject to the following terms:

(a) The number of shares of Common Stock subject to the Reload Option shall be the number of shares, if any, used by the Optionee to pay the purchase price upon exercise of the Original Option, plus the number of shares, if any, delivered by the Optionee to satisfy the tax withholding requirement relating to such exercise.

(b) The Reload Option shall be a Nonstatutory Stock Option.

(c) The grant of the Reload Option shall be effective upon the date of exercise of the Original Option, and the term of the Reload Option shall be the period, if any, remaining from that date to the date upon which the Original Option would have expired.

(d) The grant of the Reload Option shall not be effective if, on the date of exercise of the Original Option, the Optionee is not employed by the Corporation or a Subsidiary.

(e) The Reload Option shall have such other terms and conditions as the Committee may, in its sole discretion consistent with this Section, determine.

SECTION 3. PROVISIONS RELATING TO PLAN PARTICIPATION

3.1 TERMINATION OF EMPLOYMENT OR SERVICE AS A DIRECTOR

(a) Termination of Employment or Discharge. Unless earlier terminated in accordance with its terms, an Option shall terminate six months after any of the following:

(i) voluntary termination of Employment by the Employee, with or without the consent of the Corporation or any Subsidiary for reasons other than Disability or retirement under a retirement plan of the Corporation or any Subsidiary, or

(ii) termination of Employment by the Corporation or any Subsidiary, without cause, or

(iii) termination of Employment because the employing Subsidiary ceased to be a Subsidiary of the Corporation and the Employee does not, prior thereto or contemporaneously therewith, become an Employee of the Corporation or of another Subsidiary.

Notwithstanding the foregoing provision, the Committee may, in its sole discretion, at the time of grant establish different terms and conditions pertaining to the effect of an Optionee's termination of employment on the exercisability of Options.

(b) Termination of Employment or Discharge With Cause. Unless earlier terminated in accordance with its terms, all Options, whether vested or not, awarded to an Employee who terminates Employment or is discharged due with cause by appropriate corporate action or under authority of law shall terminate immediately upon such termination of Employment or discharge.

(c) Termination of Employment Upon Retirement or Disability. Unless earlier expired in accordance with its terms, all Options held by an Employee shall become vested immediately upon the Employee's termination of Employment due to retirement under the terms of the retirement plan of the Corporation or the Subsidiary employing the Employee or due to the Employee's Disability. The Employee so terminating Employment due to retirement or disability shall have until the Option Expiration Date to exercise the Options awarded to him.

(d) Vesting and Exercise of Options After Death. If the holder of an Option shall die during the term of an Option, the Option shall become immediately vested and the holder or the legal representatives shall be entitled to exercise the Option in whole or in part, to the extent then unexercised, at any time within one year following the death of the Optionee, but in no event after the Option Expiration Date.

(e) Termination of Service as a Director. If a Nonemployee Director shall terminate his service as a director for reasons other than removal for cause by appropriate Corporate action or under authority of law, all unexpired Options held by the Nonemployee Director which have not vested shall become vested immediately. The nonemployee Director so terminating his service as a director shall have until the Option Expiration Date to exercise the Options awarded to him.

Unless earlier terminated in accordance with its terms, a vested Option awarded to a Nonemployee Director who terminates his service as a director due to removal for cause by appropriate corporate action or under authority of law shall terminate immediately upon such termination of service as a director.

3.2 ADJUSTMENTS UPON CHANGES IN CAPITALIZATION; CHANGE OF CONTROL; DISSOLUTION.

(a) Subject to any required action by the shareholders of the Corporation, each of (i) the number of shares of Common Stock covered by each outstanding Option, (ii) the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, (iii) the price per share of Common Stock covered by each such outstanding Option, and (iv) the maximum number of shares with respect to which Options may be granted to any Optionee, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split or the payment of a stock dividend with respect to the Common Stock or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Corporation; provided, however, that (a) each such adjustment with respect to an Incentive Stock Option or Qualified Stock Option shall comply with the rules of Section 424(a) of the IRC (or any successor provision) and an applicable provision of the PRC, respectively, and (b) in no event shall any adjustment be made which would render any Qualified Stock Option granted hereunder other than a "qualified option" under Section 1046 of the PRC or any Incentive Stock Options granted hereunder other than an "incentive stock option" as defined in Section 422 of the IRC; and provided further, however, that conversion of any convertible securities of the Corporation shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Corporation of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option.

(b) If: (1) any person (as defined for purposes of Section 13(d) and 14(d) of the Exchange Act, but excluding the Corporation and any of its wholly-owned subsidiaries) acquires direct or indirect ownership of 50% or more of the combined voting power of the then outstanding securities of the Corporation as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise; or (2) the shareholders of the Corporation approve (A) any consolidation or merger of the Corporation in which the Corporation is not the surviving corporation (other than a merger of the Corporation in which the holders of Common Stock immediately prior to the merger have the same or substantially the same proportionate ownership of the surviving corporation immediately after the merger), or (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Corporation to an entity which is not a wholly-owned subsidiary of the Corporation, then the exercisability of each Option outstanding under the Plan shall be automatically accelerated so that each Option shall, immediately prior to the specified effective date of any of the foregoing transactions, become fully exercisable with respect to the total number of shares subject to such Option and may be exercisable for all or any portion of such shares. Upon the consummation of any of such transactions, all outstanding Options under the Plan shall, to the extent not previously exercised, terminate and cease to be outstanding.

(c) In the event of the proposed dissolution or liquidation of the Corporation, all outstanding Options will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Committee.

SECTION 4. ADMINISTRATION

4.1 BOARD OF DIRECTORS TO ADMINISTER THE PLAN.

(a) Unless the Board of Directors appoints a Committee pursuant to Section 4.2, the Board of Directors shall have, subject to the express provisions of the Plan, general authority to administer the Plan to Grant Options thereunder and to make determinations under, interpretations of, and to take such other steps in connection with the Plan and the Options granted thereunder as it may deem necessary or advisable.

4.2 INDEPENDENT COMMITTEE TO ADMINISTER THE PLAN.

(a) Composition and Functions of the Committee. A Committee consisting of at least two directors (who shall be Nonemployee Directors as defined in Rule 16b-3 of the Securities and Exchange Commission) may be appointed by the Board of Directors and will have, subject to the express provisions of the Plan, general authority to administer the Plan, to grant Options thereunder, subject to the ratification of the Board of Directors if such limitation is imposed by the Board of Directors, and to perform such other functions as may be assigned to it by the Board of Directors in connection with the Plan, including, among other things, determining the form of Option Contracts to be issued under the Plan and the terms and conditions to be included in such Option Contracts and adopting from time to time such rules and regulations as it may deem appropriate for the proper administration of the Plan. The Committee may also make such determinations under, and such interpretations of, and take such steps in connection with, the Plan, the rules and regulations or Options granted thereunder as it may deem necessary or advisable. The Committee may, in its discretion or in accordance with a direction from the Board of Directors, waive any provisions of any Option Contract, provided such waiver is not inconsistent with the terms of the Plan as then in effect.

(b) Authorization of Actions Taken by the Committee and Board of Directors. Vacancies in the Committee shall be filled by the Board of Directors. The Committee may act by a majority of its members either at a meeting or in writing without a meeting. All questions arising under the Plan or under any rules and regulations adopted by the Board of Directors or the Committee or under the Option Contracts, whether such questions involve interpretation thereof or otherwise, shall be determined by the Committee and its determination, unless disapproved by the Board of Directors, shall be conclusive and binding in all cases. To the extent that any such action would not adversely affect the status of Qualified Stock Options and Incentive Stock Options under the PRC and IRC, respectively, all matters provided in the Plan, in the Option Contracts, or in such rules and regulations to be determined or performed by the Committee may be determined or performed by the entire Board of Directors. No member of the Board of Directors or of the Committee shall be liable for any action taken or any determination made in good faith with respect to the Plan or any Option Contract.

(c) Findings of the Board of Directors and Committee Are Conclusive. Each determination, interpretation, or other action made or taken pursuant to the provisions of this Plan by the Board of Directors or the Committee shall be final and shall be binding and conclusive for all purposes and upon all persons, including, without limitation thereto, the Corporation, the shareholders, the Committee and each of the members thereof, and all Optionees, and their respective successors in interest.

4.3 AMENDMENT AND DISCONTINUANCE OF THE PLAN.

The Board of Directors may at any time amend, modify, suspend or terminate the Plan, without shareholder approval, except to the extent required by the PRC or the IRC to permit the granting of Qualified Stock Options or Incentive Stock Options, or by the rules of any securities exchange or automated quotation system on which the shares of Common Stock of the Corporation trade at such time, provided, that no change shall be made which will have a material adverse effect upon any Option previously granted unless the consent of the affected Optionee is obtained.

4.4 COMPLIANCE WITH LAW AND OTHER CONDITIONS.

(a) Options. Any exercise by an Optionee of an Option shall be made only in compliance with any applicable rule or regulation of the Securities and Exchange Commission exempting such exercise from the operation of Section 16(b) of the Securities Exchange Act of 1934 and any other applicable law, rule, regulation or other provision that may hereafter relate to the exercise and cash settlement rights of Options under the Federal securities laws.

(b) Generally. No shares of Common Stock shall be issued pursuant to the exercise of any Option granted under the Plan prior to the compliance by the Corporation, to the satisfaction of its counsel, with any applicable laws and with any applicable regulations of any securities exchange on which such shares are listed.

4.5 WITHHOLDING TAXES.

Whenever shares of Common Stock are to be issued pursuant to the Plan, the Corporation shall have the right to require that there be remitted to the Corporation an amount sufficient to satisfy all applicable federal, state, commonwealth and local withholding tax requirements prior to the delivery of any certificate or certificates for such shares. The Corporation reserves the right to satisfy the applicable federal, state, commonwealth and local withholding tax requirements through the retention of shares of Common Stock otherwise transferable upon exercise of an Option. Such withheld amounts shall meet the Federal securities laws requirements set forth in Section 4.3(a), hereof. Whenever payments are to be made in cash, such payments shall be net of an amount sufficient to satisfy federal, state and local withholding tax requirements and authorized deductions.

4.6 TAX OFFSET PAYMENTS.

The Committee shall have the authority at the time of any award under this Plan or anytime thereafter to make Tax Offset Payments to assist Optionees in paying income taxes incurred as a result of their participation in this Plan. The Tax Offset Payments shall be determined by multiplying a percentage established by the Committee by all or a portion (as the Board of Directors or the Committee shall determine) of the taxable income recognized by an Optionee upon (i) the exercise of a Nonstatutory Stock Option, or (ii) the disposition of shares received upon exercise of a Qualified Stock Option or Incentive Stock Option. The percentage shall be established, from time to time, by the Committee at that rate which the Committee, in its sole discretion, determines to be appropriate and in the best interests of the Corporation to assist Optionees in paying income taxes incurred as a result of the events described in the preceding sentence. Tax Offset Payments shall be subject to the restrictions on transferability applicable to Options set forth in Section 2.1

4.7 USE OF PROCEEDS AND FUNDING.

(a) Use of Proceeds. The proceeds from the sale of Common Stock pursuant to Options granted under the Plan shall constitute general funds of the Corporation and may be used for its corporate purposes as the Corporation may determine.

(b) Funding. No provision of the Plan shall require or permit the Corporation, for the purpose of satisfying any obligations under the Plan, to purchase assets or place any assets in a trust or other entity to which contributions are made or otherwise to segregate any assets, nor shall the Corporation maintain separate bank accounts, books, records or other evidence of the existence of a segregated or separately maintained or administered fund for such purposes. Employees shall have no rights under the Plan other than as unsecured general creditors of the Corporation, except that insofar as they may have become entitled to payment of additional compensation by performance of services, they shall have the same rights as other employees under general law. This Subsection shall not prevent the Corporation from purchasing its Common Stock for the purpose of meeting its requirements to issue Common Stock pursuant to the Plan.

4.8 OTHER.

To the extent applicable, this Plan is intended to permit the issuance of Qualified Stock Options in accordance with the provisions of
Section 1046 of the PRC and Incentive Stock Options in accordance with Section 422 of the IRC. This Plan may be modified or amended at any time, both prospectively and retroactively, and in such manner as to affect Qualified Stock Options or Incentive Stock Options previously granted, if such amendment or modification is necessary for this Plan and the Qualified Stock Options or Incentive Stock Options granted hereunder to qualify under said provisions of the PRC and the IRC.

[POPULAR LOGO]

c/o BANCO POPULAR de PUERTO RICO
TRUST DIVISION
PO BOX 362708
SAN JUAN PR 00936-2708

IF YOU WISH TO VOTE BY TELEPHONE, INTERNET OR MAIL, PLEASE READ THE INSTRUCTIONS BELOW.

Popular, Inc. encourages you to take advantage of t convenient ways to vote your shares for matters to covered at the 2001 Annual Meeting of Stockholders. Please take the opportunity to use one of the three voting methods outlined below to cast your ballot.

VOTE BY PHONE - 1-800-690-6903
Use any touch-tone telephone to vote your proxy. Ha your proxy card in hand when you call. You will be prompted to enter your 12-digit Control Number, whi is located below, and then follow the simple instru the Vote Voice provides you.

VOTE BY INTERNET WWW.PROXYVOTE.COM
Use the Internet to vote your proxy. Have your prox card in hand when you access the web site. You will prompted to enter your 12-digit Control Number, whi is located below, to obtain your records and create electronic ballot.

VOTE BY MAIL
Please mark, sign, date and return this card prompt using the enclosed postage prepaid envelope to: BAN POPULAR DE PUERTO RICO, TRUST DIVISION, PO BOX 3627 SAN JUAN, PUERTO RICO 00936-2708. No postage is req if mailed in the United States, Puerto Rico or the Virgin Islands.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: POPULA KEEP THIS PO

DETACH AND R

[POPULAR LOGO] PROXY

The Board recommends a vote for:

	FOR ALL	WITHHOLD ALL	FOR ALL EXCEPT	To withhold authority to vote, and write the nominee's number
1. ELECTION OF THE FOLLOWING NOMINEES: 1) JOSE B. CARRION 2) HECTOR R. GONZALEZ 3) MANUEL MORALES JR. 4) JULIO E. VIZCARRONDO JR.	[ ]	[ ]	[ ]	------------------------------

	FOR	AGAINST	ABSTAIN
2. APPROVAL OF THE 2001 STOCK OPTION PLAN	[ ]	[ ]	[ ]

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

The undersigned hereby appoints Richard L. Carrion, Jorge A. Junquera and David H. Chafey Jr. or any on Proxies, each with the power to appoint his substitute, and authorizes them to represent and to vote as the shares of common stock of Popular, Inc. held of record by the undersigned on March 5, 2001, at the Shareholders to be held at the Centro Europa Building, 1492 Ponce de Leon Avenue, 3rd Floor, San Juan, 23, 2001, at 10:30 a.m. or at any adjournments thereof. The Proxies are further authorized to vote such business that may properly come before the meeting or any adjournments thereof.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOC DIRECTION IS MADE, THIS PROXY WILL BE VOTED "FOR" ITEMS 1 AND 2 ABOVE.

PLEASE SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.
PLEASE SIGN AS YOUR NAME APPEARS ON THIS FORM. IF SHARES ARE HELD JOINTLY, ALL OWNERS SHOUL
(VEA AL DORSO TEXTO EN ESPANOL)

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)